The Business Advocate Magazine

Nation's Business®

U.S. Chamber of Commerce Publication

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Nation's Business®

February 1984
Vol. 72, No. 2



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PHOTO: DAVID WILDEZ



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PHOTO: FRED KUGMAN—FOLIO



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PHOTO: GARY KIEFFER



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BY JAMES J. KILPATRICK

In Defense of the Media

NEWSPAPER PEOPLE have long cherished a favorite quotation from Thomas Jefferson. It comes from a letter that he wrote to Edward Carrington in 1787. "Were it left to me to decide whether we should have a government without newspapers or newspapers without a government," said Mr. Jefferson, "I should not hesitate a moment to prefer the latter."

That was one of the few pleasant things Jefferson ever said about the press. The *Jeffersonian Cyclopedia* contains 48 citations under the heading "newspapers." Of these, 2 are neutral; 8 are favorable; 38 are downright denunciatory. Far more typical of Jefferson's sentiments are these: "Nothing can now be believed which is seen in a newspaper.... Truth itself becomes suspicious by being put into that polluted vessel.... The man who never looks into a newspaper is better informed than he who reads them."



We of the press have brought much of this contumely on ourselves.

In 1801 Jefferson condemned newspapers for "their lying faculties." In 1803 he spoke of "their abuses," in 1807 of "their abandoned prostitution to falsehood," in 1810 of "their scurrilities." In 1814 Jefferson concluded that newspapers had forfeited "all title to belief," and in 1815 he commented that rulers "must rise above these vehicles of passion."

I quote Jefferson at such length in order to make a point: Denunciations of the American press go back a long way. In the days of yellow journalism, newspapers were charged with fomenting war in Cuba. In 1933 a Methodist body denounced the American newspaper as "one of the chief enemies of the Kingdom of God." I was in the Cow Palace at San Francisco on the night in 1964 that former President Eisenhower addressed the Republican convention. "Let us particularly scorn the divisive efforts of ... sensation-seeking columnists and commentators," he said. The hall exploded. Sitting in the press gallery, I felt an oven door open upon flames of purblind hatred.

We of the press are in trouble. A recent public opinion poll found that only 13.7 percent of the American people have "a great deal of confidence" in newspapers. Only 12.7 percent have such confidence in TV. When reporters were barred from covering the invasion of Grenada, the people felt strongly about it: The people felt strongly in favor of the ban. A week scarcely passes that some jury, somewhere, does not bring in a passionately punitive libel judgment against a newspaper or magazine.

We of the press have brought much of this contumely upon ourselves. We insist upon having access to the secrets of others, but we are very jealous of our own. We make mistakes of fact; some of these we correct unobtrusively, and some we seem never to correct at all. At the highest levels of the press, notably the *New York Times* and the *Washington Post*, we use the news columns as vehicles of opinion. In a few spectacular instances, we have been caught fabricating stories that were presented as fact.

The motion picture "The Right Stuff" depicted TV and newspaper reporters as a mob of shrill and insolent hoodlums; it was a caricature, but the essence of caricature lies in its kernel of truth.

That brief catalog of a few offenses with which we stand charged omits our most serious shortcoming: We of the press have failed to tell our own side of the story. We are supposed to know something about communication, but we have not communicated with our own readers. I offer myself as an example. I have spent my whole life in newspapering, but in the 10 years I have been writing these pieces for NATION'S BUSINESS I had not written one line about the profession I love, until this month.

Let me rise for the defense. American newspapers today are a thousand times better—better in every way—than newspapers of Jefferson's day or of Teddy Roosevelt's day. They are better written; they are less partisan in their news columns; in cities small and large they provide a generally thorough and accurate report on the communities they serve.

IT WAS NONSENSE on Jefferson's part to say that "nothing can now be believed which is seen in a newspaper." Only some tiny fraction of the news we print may be skeptically received. The great bulk of our daily report involves such factual matter as market quotations, baseball box scores, court proceedings, election returns and the simple chronicles of birth and death. It is only when we let our news columns drift into opinionated "analysis" and "interpretation" that we lose the confidence of our readers.

I wish my brothers and sisters in the news business—and especially those in TV—would get back to old standards of objectivity and fairness. In our news columns we ought to be as honest as mirrors. We ought to abandon the conceit that we are the sole protectors of the people against their enemies, the government. We never will be loved—we have no right to be loved—but by hard work and better communication we may yet gain the confidence and respect that a free press deserves. □

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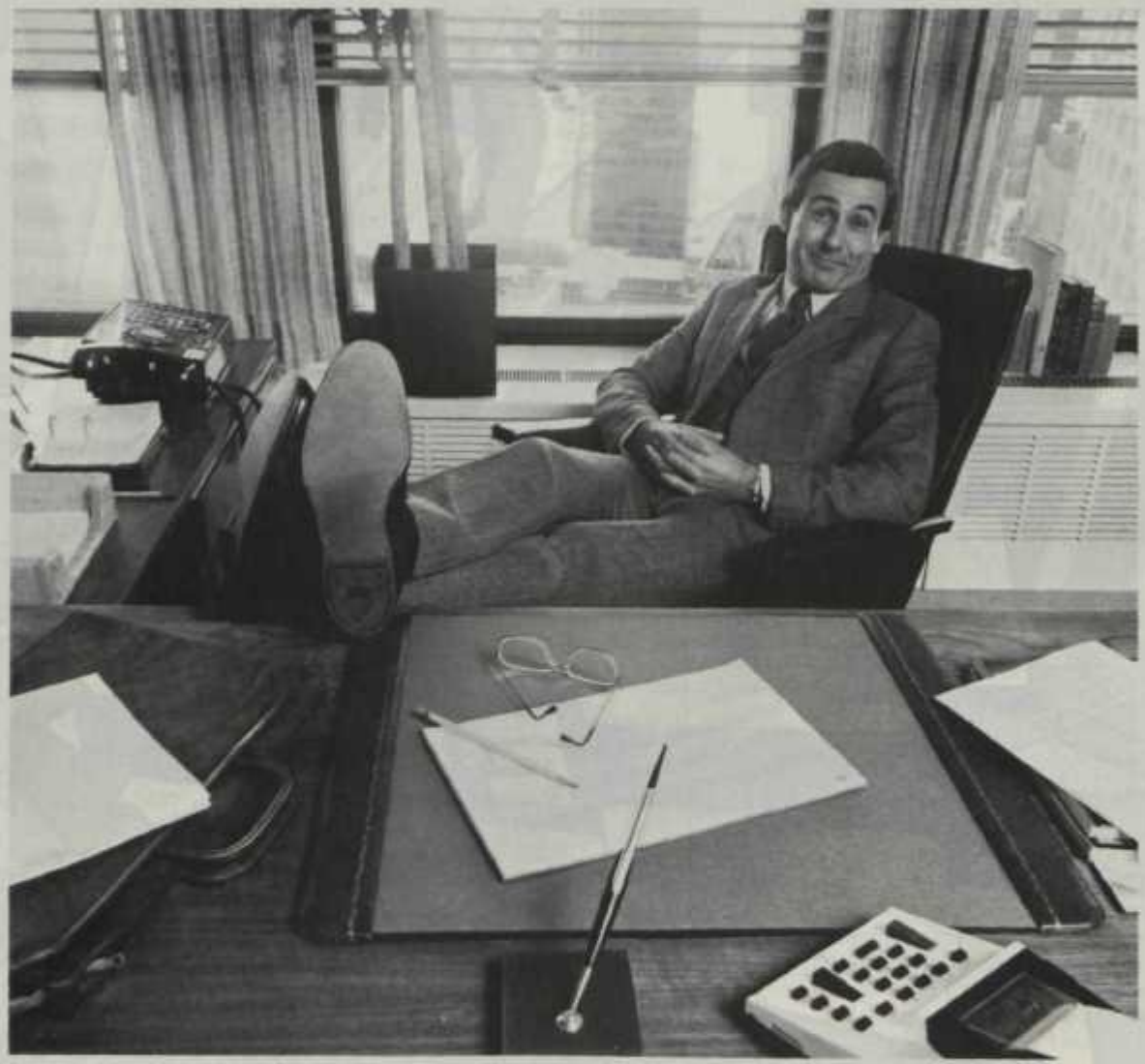
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WASHINGTON LETTER

▶ SLOW, STEADY 2 percent rise in money supply over last half year gives Federal Reserve Board flexibility in responding to rising credit needs as pace of economic recovery slows to near 5 percent. At current rate of expansion, Fed can meet banks' demand for money to lend without sparking renewal of inflationary fears. Economists' consensus is that businesses can expect second straight year of growth that is free of cost pressures or supply bottlenecks that have accompanied past recoveries.

▶ GEORGE ORWELL WAS WRONG about 1984. Americans are more optimistic about their future than at any time in last quarter century, says recent Gallup Poll. About 70 percent think they will be better off at year's end, versus 50 percent 12 months earlier. Only 15 percent say things will get worse this year. Of 31 nations surveyed, only Argentinians--who have a new, freely elected government--express greater optimism.

▶ YEAR-LONG PLUNGE IN UNEMPLOYMENT rate continues to surprise many economists. Recovery plus unexpectedly slow growth in number of people entering labor market explain drop in jobless rate to near 8 percent from revised peak of 10.7 percent in November, 1982. Among men over 20, jobless rate was 7.4 percent in December.

▶ DEMOCRATIC PRESIDENTIAL nominating contest may be over soon after it begins. Former Vice President Walter Mondale is heavy favorite to all but wrap up his party's nomination by April 14. Over 60 percent of July's convention delegates will be chosen by then. Reporters covering Iowa caucus, to be held February 20, say California's Sen. Alan Cranston could surprise Ohio's Sen. John Glenn, who is running second in national Democratic popularity polls. Less than strong showing in seven primaries over following three weeks could knock Glenn out of race early.

▶ MONDALE'S OWN CAMPAIGN STATEMENTS show that, if he's elected President, business can expect higher taxes, even more government spending, cuts in defense, steeply rising inflation. Mondale has carved out policies in sharp contrast to President Reagan's, proposing higher taxes on both individuals and business, minimum corporate taxes, canceling indexation of tax brackets. He has singled out more than 17 major programs for higher spending. He opposes funding for any military items "not unquestionably defensive." Controlling inflation was listed last among his economic priorities in one speech.

▶ AT LEAST 167 MEMBERS OF CONGRESS seeking re-election are in line for U.S. Chamber of Commerce endorsement. They qualified with 70 percent or higher support for business positions on key votes during their congressional service. The endorsements will become final if state or district business communities add their endorsement, which is expected in virtually all cases. The list includes 139 Republican and 16 Democratic representatives, plus 11 Republicans and one Democrat in the Senate. Four GOP representatives have 100 percent Chamber ratings: Ed Zschau and Bill Lowery of California, Steve Bartlett of Texas and Herbert H. Bateman of Virginia. Top ratings among senators up for re-election

are for two Republicans--91 percent for Jesse Helms of North Carolina and 90 for Strom Thurmond of South Carolina.

▶ EARLY EXIT FOR U.S. PEACEKEEPING forces in Lebanon may result from latest Middle East negotiations. Presidential envoy Donald Rumsfeld is working on new plan to get all foreign troops out of that war-torn nation by mid-July. White House domestic political advisers believe keeping Marines stationed at Beirut's airport represents too great political risk compared with limited tactical role Marines play.

▶ WITH CONGRESS BACK AT WORK, chances are slim that Democratic-controlled House will support Reagan efforts to make even modest cuts in government spending. Still, Democrats try to make deficits their issue, despite erosion of support for tight fiscal policies, especially among Southern Democrats. Overall congressional backing of Reagan on bills he supports has slipped from 82 percent in 1981 to 67 percent in 1983.

▶ TAX SEASON APPROACHES with more Americans expected to take advantage of Individual Retirement Accounts or Keogh Plans for self-employed persons. About 18 million families out of 82 million eligible have opened these tax shelters. Favorable outlook exists for Congress to permit adding another $1,750 yearly to each IRA. Money could not be deducted from current income like other IRA deposits but, like them, would grow tax-free. In Canada, about 80 percent of families have opened IRAs. Similar U.S. participation rate would add $132 billion annually to savings pool. This is about 2½ times amount laid aside in first 15 months after all workers became eligible to open these accounts.

▶ MISERY INDEX--measure of monthly unemployment rate and rate of inflation over previous 12 months--was 11.4 in December, 1983. This is lowest rate since 1972 and improvement of 43 percent over December, 1980, when inflation was running at 12.4 percent, compared with current rate of 3.2 percent. Unemployment rate was 7.4 percent in December, 1980, compared with 8.2 percent in December, 1983.

▶ TELEPHONE ACCESS CHARGES are first item on agenda as Congress goes back to work. House-passed legislation that would boost business' telephone bill by $3.9 billion annually is targeted for defeat by U.S. Chamber and an alliance of 17 major business groups. Companies with more than one line may experience 40 percent to 200 percent hike in telephone rates if bill is not modified. Business groups are seeking to modify Senate version of plan sponsored by Sen. Robert Packwood (R-Ore.). They want principle of cost-based pricing written into law. Groups fear nation's lead in telecommunications technology will be undermined by proposed business subsidies to home users.

▶ U.S.-JAPAN TRADE RELATIONS will be explored at high level in an intercontinental dialogue via satellite March 1. U.S. Special Trade Representative William Brock, in Washington, will discuss the issues with Japanese business leaders assembled in Tokyo. The exchange will take place through facilities of BizNet, television network of the U.S. Chamber of Commerce, sponsor of the event. Chamber President Richard L. Lesher will be host for the teleconference, participating from the Tokyo side of the activities.

▶ GRACE COMMISSION REPORT ON GOVERNMENT cost cutting identifies savings with present value of $424 billion over three years through implementation of 2,478 proposals. If all pass Congress, it says, savings through 2000 would total $10.5 trillion. Chairman J. Peter Grace calls privately financed study by 2,000 volunteer executives "most extensive analysis of government operations ever undertaken." Excessive government spending is so serious, Grace warns, "that we can't solve this problem by raising taxes." Biggest three-year savings: Reducing government pension benefits to private sector levels, $58 billion; market pricing of government-owned electricity, $20 billion.

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Caveat Emptor

Re: "The Best of Times and the Worst for Insurance Buyers" [November].

After seeing the difference between a good agent and a bad agent for the underwriting company, I wonder if every small business that is offered a better price goes over each item of the policy carefully.

Sometimes the best price might mean less coverage if the insured does not know how to read the policy and relies on the insurance agent's word that it is the same coverage.

The underwriting companies should scrutinize their agents more closely.

JENNIFER E. DEVINE
Secretary-Treasurer
Harpe & Sons, Inc.
Owensboro, Ky.

"The Best of Times and the Worst for Insurance Buyers" decried the rapidly escalating cost of health care, especially hospital costs, but it did not really delve into the possibility of reducing these costs.

There are at least two methods of reducing health care costs. One is to better educate people in preventive self-care. The other is increased use of chiropractic services.

Prevention of many major illnesses can be accomplished through a combination of proper nutrition and exercise. A U.S. Senate report on nutrition, published in 1977, said that 6 of the 10 leading causes of death in the United States have been linked to diet. These include such diseases as heart disease, cancer, obesity, diabetes, stroke and arthritis.

The Senate committee made these dietary recommendations: increase complex carbohydrates and reduce fat, sugar, salt and cholesterol.

When chiropractic care is used effectively, it results in considerable savings. Care is provided in the doctor's office, not in a hospital. Medications are not used and surgery is not performed.

Studies conducted by several states have repeatedly shown that chiropractic care was twice as effective as medical care in the treatment of industrial back injuries. Injured employes returned to work twice as fast and the cost of the care was much lower.

PAUL B. BINDELL
Chiropractor
The Chiropractic Center
Rockaway, N.J.

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Keep minimum wage as is

This is in response to the November Where I Stand question concerning the proposed increase in the minimum wage.

We are a small insurance company employing 60 to 70 people. Our industry is going through a very competitive and difficult period. We are located in a city of 25,000 where labor costs are lower than in the larger metropolitan area we serve. However, our labor-cost advantage is offset by high telephone costs.

Many of our jobs require relatively few skills and pay minimum wage. We are already operating at a marginal level, and the proposed increase would place a very heavy burden on us, maybe even push us into the red. Or into automation, which would mean cutting a high percentage of jobs that are now performed manually.

During a period when we are all striving to combat inflation and unemployment, raising the minimum wage seems to be a very counterproductive measure.

It is amazing how short our memories are.

RAY F. WILLIAMS
Senior Vice President
Louis A. Williams & Associates
Marshall, Tex.

Vote for all, not for one

"Black Voting: End to Stereotypes" [Outlook, December] says that black voters will vote for the candidate with the best platform for blacks. If every minority group did this we would be in a real mess. That would mean each party would have to have special programs for each minority.

What about the poor forgotten majority? A big problem with America today is that there is already too much emphasis on minorities.

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LETTERS

whole is what voters should consider in a presidential election, not their own narrow self-interest. We all live with, work with and are surrounded by different groups, and we need to promote what is best for most of us, as opposed to what is best for a relative few.

JAMES STEWART
New York City

Newcomers add spirit

I strongly disagree with James J. Kilpatrick's closed door policy on immigration ["A Time for Statesmanship," December].

Rather, I favor allowing anyone (other than criminals) who wants to immigrate to America to do so. The reasons are simple. People who come to the United States are looking to better themselves economically and live free from oppression. They are productive and take advantage of the opportunities and risks to succeed. Immigrants bring back the entrepreneurial spirit that America seems to be losing.

The only condition I would impose is that anyone entering this country be allowed to succeed or fail without government welfare support.

MARY MILLER
Phoenix

Passing on PASS

As a small business person who signed up with the Small Business Administration's Procurement Automated Source System and wondered what happened to the program, I appreciated "Strange Case of the SBA Computer Contract" [December].

The only correspondence my office ever received from PASS was notices of training workshops—for a fee. I venture to say that the majority of small businesses are already trained in whatever work is involved. I thought the program was supposed to provide real opportunities for work—not useless paper work, wasteful administration and false anticipation.

FRANCISCA R. CRUZ
American Freelance Agency
Dallas

The secretary's job

"Preparing for the Real World" [December] fails to mention the low salaries secretaries are generally paid. More women today are completing college, and it is unlikely that many of them will accept jobs that pay little better than minimum wage. Most women who are now working as secretaries are doing so because they lack the education to get into another field.

Though the secretary's job might require more technologically advanced skills today, it still includes watering plants, making coffee, and writing reports and correspondence that the boss signs and gets credit for.

I doubt that, as the article says, "more and more males are looking seriously at the secretarial field." Not many men would be willing to carry out a secretary's normal duties.

Is it any wonder that today's young women also prefer to search for other opportunities?

SUSAN RAMSEY
Birmingham, Ala.

IMF funding won't help

I was amazed to find in the November Congressional Alert that NATION'S BUSINESS favors the increase in funding for the International Monetary Fund. We have been led by the media to believe that the IMF resolution is an expenditure of $8.4 billion. Actually, it is part of a $25 billion expenditure containing funding for the Export-Import Bank, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank.

If you believe this money is to be used by less developed countries to import American goods, you are mistaken. Though some of the money will be used to fund development projects, a good portion will be used to pay interest on loans to Western banks.

Furthermore, the less developed countries do not have to buy American, and, in fact, a new stipulation attached to the loans is that the country must increase its exports and reduce imports.

Wouldn't it be better for U.S. taxpayers if the federal deficit or taxes were cut $25 billion? Passage of the IMF funding bill will do little to improve the American economy in the long run.

E.J. CONWAY
Chairman, TRIM Committee
Second & Fifth
Congressional Districts
Tucson, Ariz.

Too kind to Carter

I was glad to see NATION'S BUSINESS print the misery index [Washington Letter, December].

It is unfortunate how quickly people forget how bad off we were only three years ago. I would like to point out that you were a little too kind to the Carter administration. The recent indicators were a 40 percent improvement from three years ago, not 20 percent.

Keep printing those monthly tallies.

THOMAS J. SVIHLIK
Vienna, Va.

Editor's Note: *You are correct about the error in December. See this month's* Washington Letter *on page 7 for an update on the index.*

New Fuel for the Recovery

By Peter A. Holmes

The consumer spending that touched off the recovery is continuing strong into 1984 and is being reinforced by sharply accelerating business investment, the U.S. Chamber of Commerce forecast section reports.

While consumption went up 4.2 percent last year, business fixed investment grew less than one half of 1 percent over the previous year. Consumption is expected to show roughly the same rate of growth this year, but, by contrast, spending for new plant and equipment is expected to leap by 10.8 percent.

And next year, when slower overall growth is anticipated, the climb in consumption growth will slacken to 3 percent, but business investment will be a strong 9 percent.

The forecast section reports that the overall outlook for 1984 and beyond "remains optimistic as the economy continues to advance strongly."

There are a few clouds. One is a 1984 inflation rate of 5.5 percent—up from last year's 3.3 percent—which means, the forecast section says, that "the progress in reducing interest rates is expected to be slow, leaving the prime rate in the 10 percent range throughout most of 1984."

And, the section adds, "the threat of increased taxes looms large on the economic horizon as prospects for closing the federal deficit gap by way of spending limits remain elusive."

For the moment, the forecast unit says, "the worsening trade deficit remains the major drag to real GNP growth as real imports are expected to continue growing significantly faster than exports."

That deficit could reach $100 billion this year, nearly half again larger than the 1983 total.

Such a deficit would have widespread effects on the domestic economy.

Mining companies and makers of machinery used in agriculture, construction, textiles, metalworking, and leather and tobacco products are forecast to have weak sales growth this year because of stiff price competition from foreign-made goods, according to the Commerce Department's annual industrial survey.

Imports are cheap in the United States—and American exports are expensive in foreign markets—because the dollar's value is high, says the department's chief economist, Robert Ortner. In recent weeks the dollar has hit record highs against the French franc and British pound, a 10-year high against the German mark and a six-year high against the Swiss franc—though against the Japanese yen, the dollar has held steady.

Ortner blames excessive federal spending for pushing up domestic interest rates, which in turn have boosted foreigners' desire to own dollars. "The dollar will probably stay strong as long as it stays in demand," he says, "despite the large trade deficits."

Among industry executives there is a debate about whether the dollar is actually overvalued. The present system of floating exchange rates, many import-

SOURCE: U.S. CENSUS BUREAU



The United States' trade deficit will widen as imports grow faster than exports, U.S. Chamber forecasters say.

ers argue, sets currency values fairly, even though the system could be improved. Free exchange rate advocates argue that interest rates, trade in services and other "invisibles" all contribute to creating the comparative values of currencies, which are best set by the marketplace.

Others demur from this analysis. Steel producers, for one, claim that the purchasing power of the dollar is up to 25 percent greater than that of some other major currencies. Wipe out that price advantage, says Armco Chairman Harry Holliday, and making steel would be more profitable for American producers.

Currency traders say that other factors are also responsible for the dollar's might: low inflation, an abundance of quality investment opportunities, confidence in government economic policies and a belief that the United States is still the safest place to invest money.

Widespread Benefits

The economy reaps big benefits because the dollar is once again the world's strongest currency, says Treasury Undersecretary Beryl Sprinkel. "A strong dollar helps keep down prices," he says, "by encouraging domestic manufacturers to stay competitive with imported goods."

Most of the benefits of a rising dollar—it is up over 20 percent in two years—have already been realized by the economy in the form of lower inflation and soft commodity prices.

But continued price pressures are sending a strong message to union leaders negotiating employment contracts with industries that face intense foreign competition.

In the automobile and steel industries, where pay is well above the average manufacturing wage, employes' willingness to settle for less may be the difference between a job and no job. Foreign companies have already captured more than 20 percent of the domestic market for both autos and steel, and economists warn that domestic products will be priced out of the market if wage settlements ignore low inflation rates and the need to keep labor costs rising no faster than improvements in productivity.

Steel producers fret that if they do not get their share of the profits during this recovery, they will not have the cash to continue modernization of obsolete capacity. A failure to invest could mean shrinking employment in an industry that has already lost more than 200,000 jobs since 1979. For automakers, runaway labor costs could spell continuation of a long-term trend toward declining domestic production of parts and cars.

Farmers' Export Prospects

For farmers, the 1984 outlook is for a worsening export market for their crops. Strong competition from abroad—caused by bigger harvests in foreign markets, high domestic prices and the strong dollar—add up to depressed foreign sales, according to an Agriculture Department forecast. □

Congress' Itchy Trigger Finger

By Kathy Root

Tax policy will be among key small business concerns this year on Capitol Hill. Small businesses could find themselves hit particularly hard if Congress approves a contingency tax.

In an effort to control soaring budget deficits, the Senate Finance Committee and congressional leaders are considering a so-called "trigger tax" that would be imposed automatically when spending was reduced by specified amounts.

Several aspects of such a contingency tax plan, developed by Sen. Robert Dole (R-Kans.) and known as the "Dole deficit package," would be especially tough on small businesses. The trigger in Dole's plan would activate $37.5 billion in energy taxes and increases in the individual and corporate income tax rates over the next three years. The taxes would be triggered next January if Congress approved the measure and cut domestic spending by an equal amount.

Although a much-harder-to-trigger contingency tax plan has been under review by the Reagan administration for several months, the Dole proposal is gathering momentum and could well be enacted.

Small companies and sole proprietorships would be hit hard by the plan's anticipated 2 percent energy tax, which would be imposed on all sales of natural gas, petroleum and electricity at the commercial and residential levels. A 2 percent surcharge would be imposed on income taxes owed above the $6,300 level, and a 5 percent surcharge on tax bills of $22,000 or more.

For married couples filing joint returns, that surcharge translates into $45,000 of adjusted gross income for the 2 percent trigger and $100,000 for the 5 percent trigger.

The income tax surcharges could be devastating to millions of small businesses because nearly 90 percent of all small firms pay income taxes at individual rates.

On the flip side, the small business community's own tax agenda—which includes reduction of corporate tax rates, enactment of a capital gains rollover for investment in small firms and inventory accounting simplification—is not likely to be approved, congressional observers say, in light of looming budget deficits.

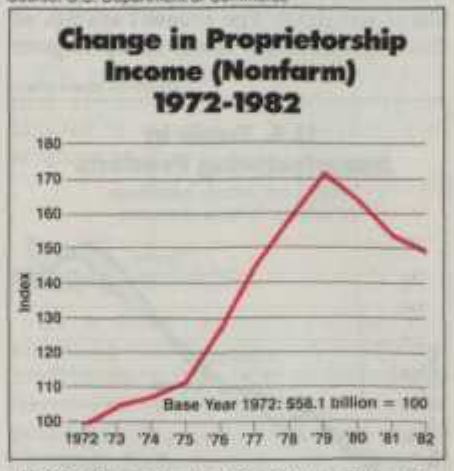
Although an omnibus small business tax reform measure has been sponsored by several Small Business Committee members, the bill is not "revenue neutral" and probably will not garner broad congressional support this year, reports a House tax subcommittee staff member.

Proprietors Gain

Gains in proprietorship income, after lagging behind personal income gains for a decade, are picking up.

Data from the Commerce Department and the Small Business Administration show that proprietorship income rose 13.7 percent in the first six months of 1983. Personal income—that from wages and salaries—rose only 3 percent. The economic recovery was chiefly responsible for the increase in proprietorship income, says SBA economist Bruce Phillips, and future figures are likely to show that the trend is being sustained.

Source: U.S. Department of Commerce



If this chart showed the future, it would probably depict a rise in proprietorship income. The trend since 1982 has been up, and it is expected to continue.

About 85 percent of the nation's 14 million small businesses are sole proprietorships.

Between 1972 and 1982, Commerce Department figures show, proprietorship income rose 56.5 percent, and personal income went up 151.1 percent.

"Commercial Nonprofits"

The Small Business Administration is asking Congress this year to consider revising certain tax laws governing nonprofit organizations. The tax laws need revamping, SBA officials say, because small companies' products are being undercut by a growing number of tax-exempt nonprofit groups.

"Commercial nonprofits" should be forced to play by the same rules as for-profit concerns, says Frank S. Swain, SBA chief counsel for advocacy. Such groups, he says, should pay taxes on profits they earn from the sale of goods and services.

Although the Internal Revenue Code requires tax payments on the "unrelated business income" of nonprofit groups selling various products, the tax language is vague and several broad exceptions allow many groups to avoid taxation, notes an SBA report.

As many as 40 percent of the nation's 780,000 tax-exempt nonprofit organizations are engaging in commercial activities in competition with for-profit companies—chiefly small businesses—that must pay federal, state and local taxes, says Swain.

He adds: "The phenomenon has caused growing concern in recent years as small businesses have felt the competitive pressures in fields such as laboratory testing, scientific research and computer software."

Cutbacks in federal grants and heightened competition for private giving have led more and more nonprofit groups to depend on for-profit commercial activities for revenue.

Churches, education associations and academic research consortiums are now competing with small companies to provide travel services, health care services, analytical laboratory studies, computer programs and consulting services.

Bennett Schultz, a sales executive at DCA Educational Products in Warrington, Pa., says the tax-exempt Minnesota Educational Computer Consortium holds 20 percent of the market in computer software for schools. The rest of the market is split among hundreds of competing companies, including his firm.

The solution, says SBA's Swain, lies with Congress. Both Congress and the White House should thoroughly evaluate the changing role of nonprofit groups in U.S. society, he says, adding: "Appropriate revisions in federal statutes are necessary to reflect the existence of the commercial nonprofit sector and to remedy the unfair competition" against for-profit companies. □

When a Home Is a Shelter

By Gerald W. Padwe, C.P.A.

The Internal Revenue Service has tended to look with a jaundiced eye at using a vacation home as a tax shelter—making the property available for rent part of the year and claiming deductions for depreciation and upkeep.

Though the idea has never appealed to IRS, it certainly has appealed to many taxpayers. IRS, in turn, has encouraged Congress to hold the taxpayers at bay.

Twice within the past decade, in 1976 and 1981, tax legislation has specifically addressed the question of vacation homes. Today the rule, briefly stated, is that deductions (including interest and real estate taxes) may not exceed income from the property, if the taxpayer makes personal use of the property for more than a certain number of days in a tax year. The limit is 14 days or 10 percent of the days rented for fair value, whichever is greater.

In recent months, there have been developments on two fronts—regulatory and judicial—that clarify some of the issues presented by this general rule.

Regulatory Relaxation

Vacation home regulations proposed by IRS in 1980 were so stringent that Congress passed liberalizing legislation before they could be implemented.

The 1980 proposals held that rentals to family members represented personal use of the property, even when a fair rental was collected. The 1981 legislation makes clear that renting to a relative will be considered business use of the property, if the rental is for fair value.

Taxpayers renting to relatives should, however, take extra precautions to substantiate that a fair rental has been charged. Corroborating evidence, updated periodically, should be collected and saved. It is much easier to secure such data on a current basis than when challenged by IRS a few years after the fact.

Definitions of "personal use" have also caused controversy.

The 1976 statute provided that a day devoted to "repair and maintenance" was not a day of personal use. But the regulations proposed in 1980 said that a day could not be a repair and maintenance day unless everyone on the premises who was capable of working was actually doing so.

Regulations proposed last year reflect the 1981 congressional mandate for IRS to be more liberal. They focus on whether a day's principal purpose is to perform repair and maintenance. Factors to be considered: the amount of time devoted to repair and maintenance, the frequency of such work during the year, and the presence and activities of companions.

The regulations state specifically, however, that a day the taxpayer devotes mostly to repair and maintenance will be considered a repair and maintenance day—presumably even if the rest of the family spends some of that day at the lake.

Judicial Arithmetic

When an owner makes any personal use of vacation property, possible deductions are reduced proportionately. That scaled-down amount must then be allocated between taxes and interest, on the one hand, and all other expenses, on the other. Although the taxes and interest are deductible in any event (as itemized deductions), IRS insists on a portion being included as rental expenses.

It is in the owner's interest to minimize the allocation of taxes and interest to rental days, since that will leave more room for deducting maintenance and depreciation. Recently, the U.S. Courts of Appeals for the 9th and 10th Circuits considered how the allocations should be made. Both courts ruled against a narrow IRS approach.

IRS has applied a test based on the number of days the vacation home was physically occupied, for either rental or personal use.

Suppose a vacation home is used three months in a year, two as a rental unit and one for personal vacation. Under the IRS test, two thirds of the interest and tax expense would be allocated against rental income before any other deductions could be considered.

The courts found this allocation formula unreasonable. They said that the test should be based not on the number of days the home was occupied, but rather on the number of days in the year. In the example above, therefore, only one sixth (two months of 12) of the tax and interest expense would be applied against rental income before any additional deductions could be taken. Result: higher total deductions for taxpayers.□

Due Date vs. Filing Date

The great majority of married couples file joint tax returns. But when two working spouses have approximately equal incomes, the so-called "marriage penalty" may actually result in lower combined taxes if two separate returns are filed.

Suppose a couple files two returns initially, and subsequently decides they would have obtained a better tax result by filing jointly—how long will they have to change their minds? The statute of limitations for tax actions is usually three years after the original due date for filing the return reporting that action.

A refund claim, however, is timely within three years of *filing* a tax return (as opposed to three years from the *due date* of that return). What if the amending return results in a claim for a refund?

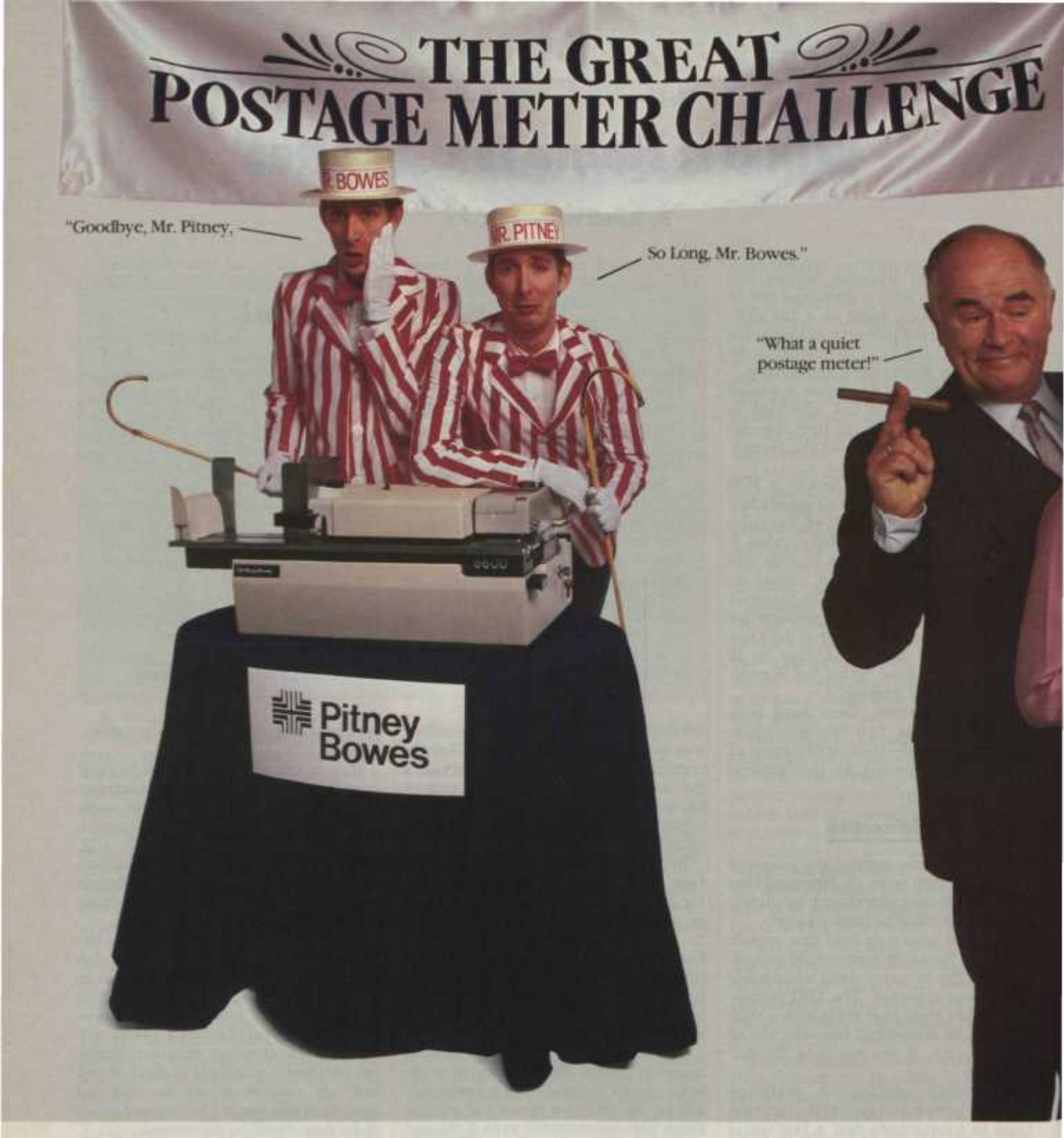
The Internal Revenue Service has recently ruled that the more restrictive "three years from due date" provisions control. The question arose in the context of a couple who filed separate returns, one of them late. They tried to file an amended joint return three years after the filing of the late return. Sorry, said IRS, the election had to be made within three years after the original due date; refund claim denied.

Moral: Make the right choice—separate or joint—the first time.

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director-tax practice for Touche Ross & Co.*

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Charting a Path in the Market

By Ray Brady

IT WAS weekend reading for Madeline Talley. As head of the U.S. money management wing of Europe's famed Rothschild banking group—a wing that handles about $500 million in assets—she was looking through charts showing the price movements and volume of stocks she had invested in.

One chart, in particular, caught her eye. As she recalls now, the stock "looked weak technically." The next day, Talley looked further into the stock—Digital Equipment.

Two weeks later, Digital's stock crashed with a roar that shook Wall Street. The Street had bid it up to a high of more than $132 a share, anticipating that the company's profits would rise sharply from its data processing business. When the earnings did not materialize, the stock's price plummeted, and investors lost millions in paper profits.

But not Rothschild investors. They were out of the stock—thanks to Talley's Sunday reading.

Despite Madeline Talley's experience, technical analysis—the charts—remains one of the least understood investment tools. Some investors swear by the charts. Others swear at them, possibly because they expect too much from charting.

Says Ralph Acampora, keeper of the charts at the Wall Street investment firm of Kidder, Peabody: "It's really a study of supply and demand. You keep charts, and you study them, to see what the supply and demand is for a specific stock, or a group of stocks, or the whole market. Then, from that, you try to determine just what is going to happen in the future.

"Are people slowly accumulating the stock, or is there a weakness beginning to show up in it?"

Sometimes, Acampora says, "you look for the perception of change—a difference in the way a stock is moving." Case in point: IBM. After hitting a high of $80 a share in 1979, Big Blue, as it is known on Wall Street, kept going down, all through 1980 and most of 1981.

Then, late in 1981, it stopped falling. To Acampora, this was the "perception of change"—IBM had finally stopped falling and was about to rise—so he put out a buy recommendation on the stock.

Through 1983, institutions and individuals bought the stock, and at year's end Big Blue was up more than 100 percent in value from the time Acampora looked at his charts.

Even the most ardent of technical analysts will not argue that the charts are an immediate path to stock market riches. But they do say that technical analysis can be another tool for the investor—and a fairly valuable one.

"If an executive investor sees a stock," says one analyst, "and it interests him, he should first check out the fundamentals of the stock. For example: How is its business going? Are the profits rising? Does the company have competent management, and what's coming in the way of new products or new lines of business?"

> Technical analysis remains one of the least understood investment tools.

Only after that kind of homework has been done, say many analysts, should the investor start looking at the technical side of the stock's performance, to see if there has been a pattern of buying in the issue.

As one Wall Streeter sums it up: "Fundamental analysis—the company's business—can tell you where to buy a stock—whether in airlines, electronics, steel, you name it. Then, technical analysis tells you when to buy a stock."

Not all investment moves called by the analysts are earth-shakers, but investors who follow their advice can make money. Smith Barney's Alan Shaw is one of the most highly regarded technical analysts. Late last year he noted that most commodities were still in a long downtrend, continuing to drop in price. But Shaw's charts told him a change of direction could be coming in some commodities—a period when prices would rally, at least for a time.

Sure enough, within two weeks, gold's price had rallied 7 percent, copper was up 8 percent, and silver was glittering at a price that was 16 percent higher.

Needless to say, technical analysis does not always sound an early warning when the market is about to move. Acampora notes ruefully that, when the bull market began its big move in the summer of 1982 and "the Dow Jones industrial average started moving up from the 780 level, I wasn't there." But, he says, "I was there by 880."

Adds Acampora: "Even if you miss the beginning of a move, with technical analysis you should be able to catch the lion's share of a move." And the Dow did, subsequently, sweep up to more than 1200.

Suppose you don't want to go to the trouble of constantly updating charts? Analysts say there are phases of technical analysis that any investor can follow—easily and profitably. Their advice:

- Watch volume. It is the weapon of the bull, because heavy buying inevitably will take a stock (or the market) upward.
- See if many investors have shorted a stock—sold shares borrowed from a brokerage, in the expectation that the price will drop. They must buy the stock they have sold short, and that can push up the price.
- On the general market, keep track of the high-low average—the number of stocks hitting new high prices, versus those hitting new low prices. It is a bullish sign if many stocks are making new highs, and so is a group move—say, two or three airlines or four oils setting new highs. (That last, incidentally, is called "the wolf pack theory of investing.")
- Finally, one bit of advice that won't make you happy if you're a small investor: Watch the figures on odd-lot short selling by small investors (that's the so-called "little guy" who buys his stock in lots of less than 100 shares). Odd-lot short selling of 1,500 to 3,000 shares a day is about normal.

But when small investors get to feeling really gloomy about the future, they short about 5,000 to 8,000 shares a day. That, say the professional technicians, is when the market is ready to rise—because, by their reckoning, the little guy is always wrong. □

RAY BRADY *is the business correspondent for CBS News.*



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Each director was asked to make four nominations (but only one ad could come from his or her own agency).

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—The Editor

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1



ANNOUNCER: In 1876 Alexander Graham Bell started a communications revolution. MAN: Watson, come here. I want you.



WOMAN: Washington, Willoughby, Woodhall, and Watson. MAN: Good morning Watson.



ANNOUNCER: Today there's a new revolution from AT&T Information Systems. MAN: Glad you could join us Mr. Watson.



MAN: We still on for lunch Watson? Goodbye for now Watson.



ANNOUNCER: AT&T Information Systems.



(Logo)

1

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2

2



ANNOUNCER: Why do hundred thousand mile flyers choose United?



CAHN: Perhaps you've heard... my kind of town, Chicago is.



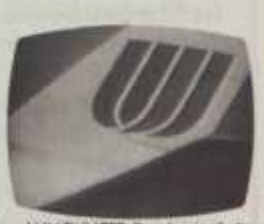
CAHN: And my kind of airlines United is...because nobody gets you to the Windy City like they do. Nobody.



WOMAN: United flies three daily nonstops to Chicago with great connections East.



CAHN: My kind of airline at my kind of price...



ANNOUNCER: People who fly for a living fly United's friendly skies.

3



1ST MAN: What's that Fred's getting? 2ND MAN: A computer.



1ST MAN: What's he know about computers?



2ND MAN: They taught him everything he needs to know. 1ST MAN: He can't even drive a car, he's gonna run a computer.



2ND MAN: There's a special phone number he can call if he has any questions. 1ST MAN: He'll keep them busy.



2ND MAN: And if there's a problem they'll come right here and fix it. 1ST MAN: Right here! Nobody ever comes here. Who was it that gave



2ND MAN: IBM. OTHER MAN: IBM. OTHER MAN: IBM. 1ST MAN: You're sure we're talking about the same FRED?

3

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4



CREW: It's a funny time to ask.



but did you look into those investments?



NAVIGATOR: I asked my broker.



CREW: And?



NAVIGATOR: Well, my broker is E. F. Hutton, and E. F. Hutton says...



When E. F. Hutton talks, people listen.

5



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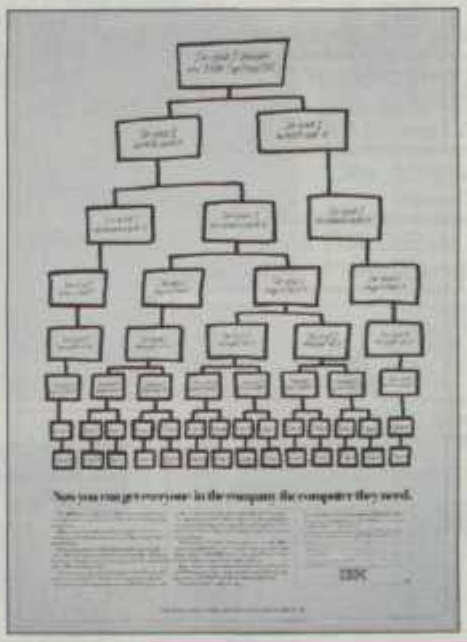
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Deregulation: Dream Deferred

Many excesses have survived the Reagan drive for reform.

By Henry Eason

THE SIGN IN the office of the Reagan administration's chief deregulator, Christopher DeMuth, was put up as a joke: "Regulations disapproved while you wait." But after hundreds of bruising confrontations with consumer and environmental activists, unions, entrenched bureaucrats, judges and members of Congress, the White House has come to view regulatory reform as more of an unrealized dream than an easily achievable goal.

President Reagan has found it far more difficult than he anticipated to translate into public policy his pledge to "get government off the backs" of the American people.

Critics complain that the administration's efforts to untangle regulations have waned. Reagan officials concede that much remains to be done on their reform agenda. DeMuth, administrator of the Office of Management and Budget's regulatory review program, points a finger at Congress. "The big changes have to be made statutorily," he says.

Important economic deregulation programs, some begun under President Carter, are restoring competition to the transportation, financial and telecommunications industries. But social deregulation, the far more controversial task of revising health, safety, consumer, labor and environmental rules, appears to have peaked, at least for now.

In an election year, the administration is unlikely to give the Democrats an opportunity to charge that regulatory reform initiatives are actually assaults on the environment and the well-being of workers and consumers. A wholesale attempt to make regulations more rational will probably have to wait until 1985.

The 1984 lull will follow three years of what many critics say have been clumsy administration attempts to convince a public sensitive about any tampering with safety, health and the environment that the goal of regulatory reform is to eliminate costly excesses—not destroy basic protections.

The administration's deregulators—backed by business groups—have found themselves unable to effect less costly but equally protective measures because of the emotional fog that has drifted over the political process. Scandals that rocked the Environmental Protection Agency last year were seen in Washington as a major setback to the deregulatory effort—governmentwide.

Marvin Kosters, director of a government regulation center at the conservative American Enterprise Institute, says flatly, "The case for reform has not been well explained. The White House has given the reform thrust certain support, but the agencies have not made a good case for what needs to be done."

PHOTOS: JIM OLIVE—UNIPHOTO





Natural gas price controls are one of the chief targets of President Reagan's campaign for deregulation, but Congress is unlikely to remove them.

Kosters adds that "time has been lost, opportunities have been lost. The achievements in social deregulation cannot be regarded as major successes."

A claim by the Presidential Task Force on Regulatory Relief that Reagan administration actions will save $150 billion over the next decade was received with widespread skepticism.

The dismantling of the task force in August, along with its proclamation of partial victory over red tape, brought grumbling from the business community. The administration "has given us an aspirin when we needed major surgery," says Hank Cox, associate manager of regulatory affairs at the U.S. Chamber of Commerce.

ALONG WITH OTHER business critics, Cox says the administration has not gotten a simple message across to the public. "The issue is not deregulation," he says. "The government must regulate the environment, workplace, safety, food and pharmaceuticals. The issue is more rational, less wasteful regulation."

Recently, some say as a political reaction to embarrassments at EPA, the administration has been adopting new regulations and sounding a more protective note in many agencies. Advocates of more government involvement in the economy are winning battles in Congress and the courts, pushing Reagan regulators even farther.

Says AFL-CIO economist Margaret Seminario, "The administration has not been able to accomplish its regulatory agenda as far as rolling back existing protections is concerned. And it has been forced to initiate some regulatory activity."

Washington insiders talk of Reagan deregulators' fears that they too could become engulfed in some EPA-like controversy if they act without developing a political consensus.

The deregulators seem reluctant to be as bold as they were in the administration's early days, when all new regulations were frozen.

Kosters says that in the aftermath of the EPA scandals, the administration needs a "period of consolidation and retrenchment to rebuild a sense of trust."

Robert Crandall, a senior fellow at

Deregulation of key transportation industries has meant lower rates for many air travelers and shippers. But downward pressure on wages has sparked some bitter strikes.



PHOTO: SHEPARD SHERBELL—PICTURE GROUP



PHOTO: MICHAEL GRECCO—PICTURE GROUP



PHOTOS: FORD MOTOR COMPANY

Federal courts have rejected some administration attempts to eliminate rules Reagan officials say are impractical and too costly. The Supreme Court overturned a decision not to require air bags in new cars.

the Brookings Institution who served on President Reagan's regulatory task force, says the administration has come to see broadly based deregulation as an issue that "does not have much political constituency, even in the business community"—though he admits that businesses are concerned about casting off economically irrational regulations that affect them individually.

Sen. Charles Grassley (R-Iowa), chairman of the Judiciary Committee's panel on administrative practices, says a "lethargy" is overtaking the regulatory reform issue. "Business people need to get behind our efforts," he says.

OBSERVERS AGREE that public acceptance is central to the success of any sales pitch for regulatory reform. They point out that the average citizen has a direct financial stake in the cost-effectiveness of government regulations, because burdens the regulations impose on business are passed along in prices as a "hidden tax."

Says Cox, "Regulatory programs are funded by regressive tax schemes that most affect those least able to pay."

DeMuth concedes, "We clearly have done much, much better in economic than social deregulation." Health, safety and environmental goals have "the universal support" of public opinion, he notes, making it hard to tamper with protective rules.

Still, DeMuth and other administration figures maintain that the Reagan White House has achieved many regulatory reform objectives:

- Small businesses are better able to raise capital under streamlined Securities and Exchange Commission and Treasury Department regulations on investments and taxes.
- Paper work reductions have saved business the equivalent of 150,000 work years annually.
- State and local governments are saving billions of dollars because federal intervention in their programs has been reduced. The Department of Health and Human Services, for example, combined 30 categorical grant programs into six block grants.
- "Emissions trading" regulations are giving plants more flexibility in meeting pollution control standards. (The rules allow plants to increase emissions from some smokestacks if they lower emissions from others.)
- Trade regulations have been liberalized by eliminating many anticompetitive domestic restrictions.
- New drugs are getting faster approval as the administration moves to unclog the sluggish pharmaceutical review process.
- Deregulation of financial institutions has broadened the asset powers of savings and loans and permitted interstate and interindustry acquisitions of failed institutions; other reforms have opened vast investment opportuni-

ties for middle- and low-income people. (See article on page 28.)

• Intercity bus service has been deregulated, opening the market to new firms and giving existing firms a better chance to expand operations.

In addition to these initiatives, the administration has tried to foster a new climate of common sense in the application of federal rules to economic activity. It began by issuing an executive order requiring that OMB approve all regulations with an economic impact greater than $100 million.

The regulatory explosion of the 1970s, says DeMuth, "meant that an increasing proportion of executive branch policy development and execution was being carried out through a highly decentralized and uncoordinated process of agency rulemaking." This process often conflicted with other administration goals, the Reagan team found.

Through the executive order, the President moved quickly and decisively to bring order to the process. Requiring OMB approval of regulations "protects against agency tunnel vision and promotes governmentwide policy coordination," says DeMuth.

Some observers insist that OMB is being used to stymie the essential missions of regulatory agencies. David Greenberg, general counsel of the Consumer Federation of America, says the Reagan administration appears to have backed down from its earlier enthusiasm for deregulation. But that change, he adds, may be illusory.

"They still work their will in the budget and enforcement area," says Greenberg. "They have gotten smarter. It is much easier for OMB to frustrate what an agency is trying to do than to legislate the elimination of an agency. More of a backdoor approach."

Grassley and Rep. Sam Hall (D-Tex.), chairman of the House Judiciary Committee's administrative law and government relations subcommittee, believe that an administration should have the right to impose some central focus on regulatory missions—provided there are proper safeguards against compromising the statutory purposes of agencies.

They are attempting to write the Reagan executive order into law as a part of omnibus regulatory reform legislation.

The legislation's prospects appear dim. The House leadership, abetted by committee chairmen who fear OMB incursions into their traditional agency oversight powers, are thought to be eager to derail measures that would increase White House prerogatives.

Also facing tough sledding this year is the administration's proposal to remove the impediments to market pricing of natural gas.

Nearly all major environmental programs are up for reauthorization by Congress. Business people are bracing for what could be stiff and expensive protections against acid rain under a bill renewing and amending the Clean Air Act.

In attempting to deregulate in both the economic and social spheres, the administration must deal not only with Congress and a frequently resistant bureaucracy, but also with the courts. Court decisions in recent years have frustrated important objectives of both the Reagan administration and Congress.

The Supreme Court last year nullified administration attempts to throw out air bags and other auto safety devices that Reagan officials said were

PHOTO: DAVID VALDEZ



Chief deregulator Christopher DeMuth says public support for health and safety rules makes change difficult.

not economical. The Court ruled unconstitutional Congress' veto power over regulations. A federal appeals court overturned a Labor Department ruling permitting knitwear manufacturers to hire people to work at home.

Aggrieved parties are appealing many other administration attempts at rule changes. With the success of others encouraging them, they appear likely to litigate deregulatory efforts across the board.

Meanwhile, the more purely economic deregulatory actions have been working their way through the economy. Unshackling railroads, trucking companies, bus lines, airlines, banks, broadcasters and phone companies has had an initially chaotic effect as firms scramble in a freer market.

For consumers, deregulation has brought cheaper long-distance airline fares, reduced trucking rates, less expensive telephones, lower fees for stock transactions, and a boom in new financial services.

It has touched off a rush of innovation as companies struggle to provide services in a tougher marketplace. Economists are hopeful that deregulation will mean long-run price reductions and greater productivity.

Sweating out inefficiencies inherent in regulated markets has brought pain to many providers. More than 300 trucking companies have gone bankrupt. (The American Trucking Associations wants more regulation of new lines.) Some airlines have gone bankrupt, others are wobbly. Ninety banks have failed since January, 1982—16 closing their doors permanently, the others absorbed by healthier institutions.

There have been howls from organized labor. The Teamsters contend trucking deregulation has meant a loss of 100,000 contract jobs, and many drivers have accepted wage cuts and diminished benefits. Airline pilots are calling for re-regulation.

Some lawmakers are sympathetic in specific cases, but it is doubtful, given the momentum of deregulation, that the country will return to the regulatory mechanisms that many analysts say distorted the marketplace and institutionalized inefficiencies.

The administration appears committed to retaining safety regulations governing deregulated industries. Transportation Secretary Elizabeth Dole, for instance, recently ordered a top-level review of airline, trucking and railroad accident-prevention policies.

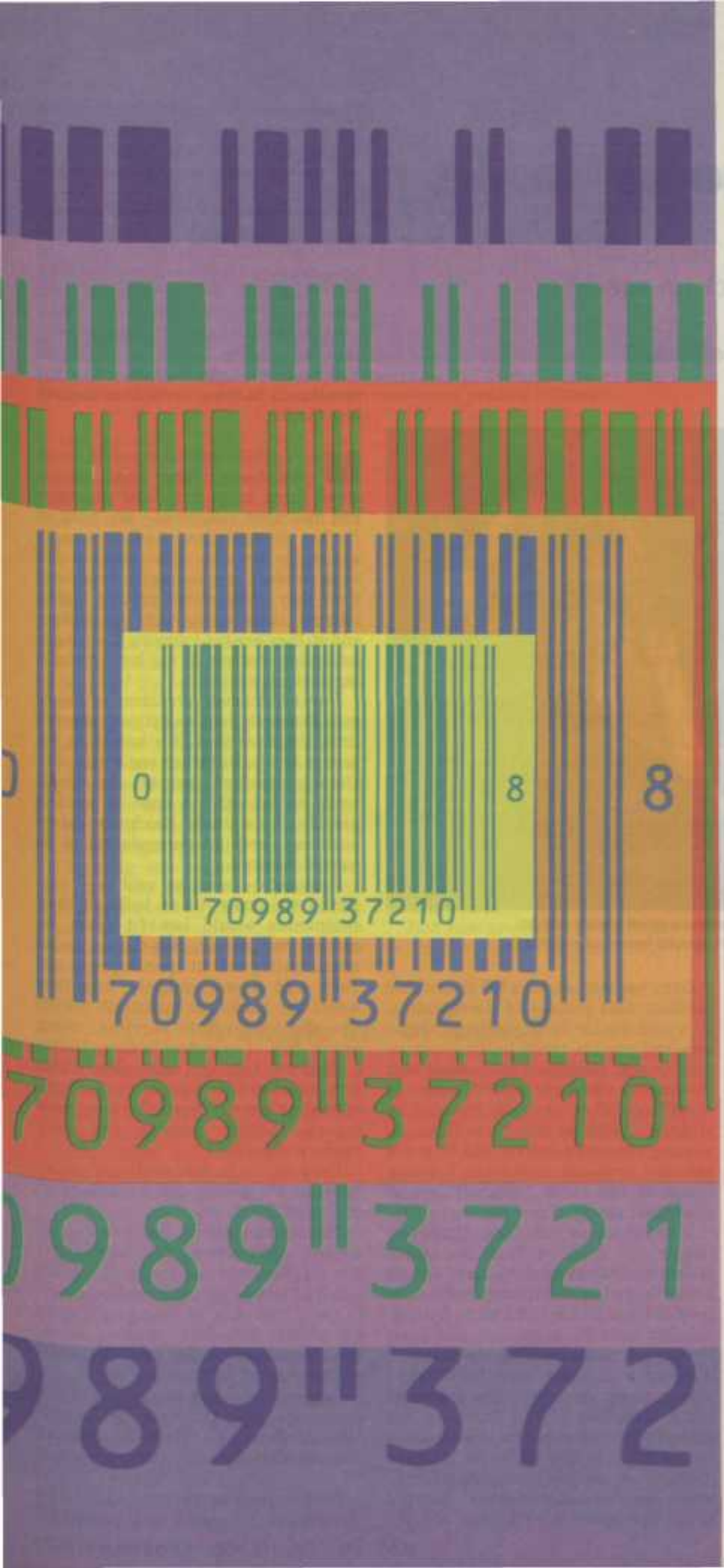
At the Occupational Safety and Health Administration, an early target for deregulation, agency head Thorne Auchter has curtailed OSHA's confrontational approach toward business. Nonetheless, he recently fought other administration figures on several health standards and won, issuing an "emergency" standard on asbestos exposure, retaining cotton dust engineering controls and making more modest changes in OSHA's hearing conservation rule than expected.

Other agencies are moving toward more administrative deregulation. The Food and Drug Administration, for example, plans to let drug manufacturers advertise prescription medicines to the public for the first time.

Deregulation is a term with encyclopedic application. It embraces numerous issues, modes of governing, political whirlpools and economic thickets.

It ranges across disputes among the three branches of government, and its specifics are fought over within each branch. Sometimes it pits business against business, sometimes region against region.

About one thing there is little dispute: Deregulation promises to be one of the most highly contested issues on the republic's agenda for many years to come. □



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More Change in Banks

The pace of banking deregulation has slowed, but it may pick up again soon.

By Mary-Margaret Wantuck



PHOTOS: DAVID VALDEZ

Comptroller of the Currency C.T. Conover believes small banks will do well as long as they "keep offering their own special brand of service."

LIKE A tightrope walker who has frozen midway across the wire, banking deregulation has lost its momentum in the past few months. But not for long, if its proponents, particularly Senate Banking Committee Chairman Jake Garn (R-Utah), have their way.

Garn was instrumental in the passage of two major laws that shook the financial industry—the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Depository Institutions Act of 1982. Those laws were responsible for more changes in banking than at any time since passage of the Federal Reserve Act in 1913.

Banks were authorized to offer NOW accounts (interest-bearing checking accounts) and money market deposit accounts, banking's answer to mutual funds. Permission was granted for mergers between banks and thrifts and between institutions in different states. Thrifts were given increased lending and investment powers. Most important, interest rate ceilings on savings instruments were gradually eliminated.

Garn has introduced a bill that would continue that process of deregulation. It would enable bank holding companies and certain thrift holding companies to sell securities, real estate and insurance through subsidiaries. It would also allow nonbank financial institutions, such as insurance firms, to acquire consumer banks, and it would sanction regional interstate banking compacts like those Congress has already permitted in New England.

"Congress must act," says Garn, particularly to increase bank and thrift freedoms. States, he notes, have surged ahead in giving depository institutions they charter greater flexibility by "expanding their asset powers and sanctioning interstate banking operations."

Federal agencies also have taken strong steps, he notes. The Office of the Comptroller of the Currency has chartered nonbank banks, which are so named because they either do not take deposits or do not make commercial loans; the Fed has authorized discount brokerage services by banks; and the Federal Deposit Insurance Corporation has proposed regulations governing securities underwriting by banks that are not members of the Federal Reserve System.

Yet the past few months have seen these agencies applying the brakes to some aspects of deregulation. The comptroller's office recently imposed a moratorium on its chartering of nonbank banks; the Fed declared that nonbank banks are subject to Fed supervision as holding companies; and the Federal Home Loan Bank Board barred investment banking firms from controlling thrifts.

MANY BUSINESSES that would be affected—including small banks, small firms in general, and securities and insurance companies—are wary of further deregulation. And consumers appear to be less enthusiastic about bank product or geographic expansion than they were about getting higher interest rates on savings accounts—and so they are not lobbying their legislators for changes in the laws restricting such expansion.

David Reichman, president of Reichman Research, Inc., an opinion research firm, theorizes that "it's human to believe in ideals. But when one's own situation is involved, support for ideals tends to fall off." A case in point is provided by a study Reichman did of business views on deregulation of financial services.

Corporate executives said they supported the concept and believed their companies would benefit from increased competition. But they revealed mixed feelings about specific proposals. They said it was unlikely that they would use banks for insurance, securities and real estate services, citing banks' lack of expertise in these fields.

Bankers, too, are ambivalent about deregulation. One contends: "We have opened up a can of worms by deregulating the banking industry, and many banks will suffer."

Despite such reservations, many bankers are taking full advantage of their new freedoms.

The venture capital business has become an attractive market, particularly for smaller regional banks. They are joining their money center counterparts in early financing of young or startup companies that show promise. Banks are now allowed to put up to 5 percent of their capital into venture capital subsidiaries. There were 42 such units five years ago, says the National Association of Small Business Investment Companies. Currently, there are about 70.

Banks are franchising products like advertising programs and automated



The new financial climate—evident at this Sears Financial Center, where a variety of services is offered—would change even more under pending legislation.

teller machines. Some insist that their franchisees—generally smaller banks—adopt their names along with their products. In any case, the franchisees remain free to determine loan and deposit rates and other policies.

A growing number of small banks are even becoming "bankers' banks," which provide such services as check processing, loan participation and wire transfers to other banks. Small banks also are uniting under the protective umbrella of the holding company structure.

But try as they might, small banks cannot entirely bury the fear that as regional interstate banking flourishes, large regional banks increasingly will fan out into other states and either establish their own new branches or acquire existing community banks.

Disputing one major study's assertion that the number of banks will shrink 40 percent by 1990—with mostly small banks disappearing—is John Danforth, senior associate of Golembe Associates, merger and acquisition experts.

"Every year there are bank consolidations, but it has been a slow process and will continue to be so," he says. "I don't expect big bank purchases of small banks to be any greater than small banks' mergers with banks of the same size or slightly larger. Unfriendly takeovers are a rarity in banking."

Many experts say the era of the boutique bank is at hand. There will still be financial supermarkets, offering every product and service imaginable, but specialized institutions that deal exclusively in a certain product line will also be highly successful.

"As long as small banks keep offering their own special brand of service and take advantage of the technology developed by large banks, they will go far," maintains Comptroller of the Currency C.T. Conover, who regulates all national banks.

Just how profitable small banks will be in the future depends largely on their attitude, Conover says: "In California, which has had statewide branching forever, you see independent banks located literally across the street from the giants like Bank of America and doing very well against them in terms of return on assets and shareholder equity. They know they can compete."

Caution seems to be the byword for small bankers. Though small banks are "confident that they can compete and thrive with large banks in a deregulated environment, they still are in favor of gradual deregulation," says Virginia Dean, associate director of the Independent Bankers Association. "All they're asking for is a temporary halt, on additional powers, so they can absorb what has already gone down."

Small businesses share this sentiment. For them, deregulation so far has meant higher loan rates, since banks are paying higher interest on deposits, and shorter loan maturities (generally one year or less) because customers are putting their money into shorter-term instruments.

Some small business people fear that product deregulation would pose a competitive threat. They contend that existing small firms would probably have to compete directly with bank subsidiaries engaged in real estate, securities and insurance and thus would be placed at a disadvantage when asking for a loan from a bank that operated a competing subsidiary.

BUT BANKERS believe these fears are exaggerated. "Not all banks are going to go into these businesses," contends Mark Serepca, an American Bankers Association spokesman. "Most just want the choice."

And Cecil Byrd, a Bank of America vice president, discounts another small business concern: that if small banks, the major providers of small business loans, are acquired by large banks, it's goodbye to credit.

"One of our major markets is small business," Byrd emphasizes. "In fact, we prefer to make two or three small loans instead of one large one. We want that small business to still be our customer when it becomes a large corporation."

Will the Garn bill make it through Congress this year? Dexter Bell, assistant counsel on the Senate Banking Committee staff, believes the bill has "a reasonable chance of passage."

Conover supports Garn's bill and lauds its comprehensiveness. But what if banks are not granted more powers in 1984? There definitely will not be a rash of failures, Conover is quick to say. "What you'll see instead is a gradual erosion of banks' vitality and their importance to our economy." □

A Single Set of Reins?

Citicorp, the massive bank holding company, is regulated by the Federal Reserve Board. Its lead bank, Citibank, is regulated by the comptroller's office. Its California savings and loan is regulated by the Federal Home Loan Bank Board. And a special bank it set up in South Dakota to handle Visa and MasterCard accounts is regulated by the Federal Deposit Insurance Corporation.

The banking industry appears to be suffering from a bad case of overregulation—one the Reagan administration would like to cure. A task force headed by Vice President George Bush has been trying for a year to come to a consensus on proposals for streamlining the financial regulatory system that it will submit to Congress.

Its tentative strategy is to consolidate most government regulation of commercial banks under a single Federal Banking Commission. The comptroller's office would become the nucleus of the new agency, assuming many noninsurance functions of the FDIC.

The most radical stripping of powers would befall the Federal Reserve Board, which still would supervise the 20 largest banks but would lose its regulatory authority over the more than 5,000 bank holding companies and 1,100 state-chartered banks that are Fed members.

Fed Chairman Paul Volcker calls the "idea that monetary policy can be separated from concerns about the strength and nature of the institutions that actually supply and manage the money supply . . . illogical and a naive and narrow notion."



PHOTOS: DAVID VALDEZ

As competition among long distance companies heats up, both MCI and AT&T are installing pay phones that accept credit cards. The first such MCI phone to go into service (right) is at Washington's National Airport.

The Ripple Effect Of Phone Deregulation

Competition is giving birth to a host of new technologies.

By Bob Gatty

JUST OVER a year ago, some of the small business customers of Executone Business Systems of Troy, Mich., were looking for an automated system to keep track of long distance calls for accounting and billing purposes.

"They couldn't stand the typical system price of $25,000," says EBS President John S. Cosgrove. "They asked if we could come up with something better."

Cosgrove and his people developed a way to hook up a low-cost personal computer to basic key telephones so that the computer would do this job.

That development led to others. Now a phone can serve as a remote terminal for a personal computer, making it possible for the customer to keep track of billable hours, parts and labor, and many other categories of information, just by keying the data in on the phone.

"The whole point was to make it a simple, low-cost method of inputting information," says Cosgrove. His company offers a package that includes a Franklin 1000 personal computer, software, video screen, printer, stand and complete accessories, for about $6,000.

Computers and telephones are increasingly being merged, forming new devices that are revolutionizing business communications.

Products now on the market can transmit voice and data simultaneously and perform tasks that once would have required a staff of secretaries and a room full of equipment.

As the race continues to produce the most sophisticated equipment for voice and data transmission, decisions made in Washington are also having an important impact on our communications systems. The court-ordered breakup of American Telephone & Telegraph Company and actions by the Federal Communications Commission are profoundly affecting the communications marketplace.

Under the breakup, AT&T continues to provide most of the long distance service between states and is handling about half the toll calls within states. The 22 local Bell companies have been separated from AT&T and reorganized into seven larger regional phone companies. They handle local service and the balance of intrastate toll calls.

Western Electric Company, the manufacturing unit of AT&T, has been dissolved and its factories taken over by AT&T Technologies, Inc. In addition to manufacturing, that firm handles AT&T's development of equipment and services and its marketing activities.

THE OPPORTUNITY for companies other than AT&T to sell telephone equipment resulted from a 1968 FCC decision that non-AT&T phones could be used on Ma Bell's network. Since then, the telephone equipment industry has grown rapidly.

Annual revenues of the 550 members of the North American Telecommunications Association—manufacturers, suppliers and vendors of non-Bell telecom-

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munications equipment—are expected to rise from $2.6 billion last year to $5 billion in 1987.

Many NATA members expect to sell equipment to the seven regional independent operating companies, which previously used Western Electric phones almost exclusively. One of the regionals, BellSouth Corporation, has said it will buy telecommunications equipment valued at about $200 million from several independent suppliers for marketing through its advanced systems divisions.

NATA President Edwin B. Spievack notes that hundreds of models of advanced phones with features like automatic dialing of frequently called numbers are available from retail telephone stores across the country at reasonable rates—some "disposable" models for as little as $10.

Competition among telecommunications manufacturers is extremely stiff, he says, and an ongoing price war could get worse.

"The market is driving technology," Spievack says, "as the distributor attempts to find something better than his competition. Nobody with any sense is trying to sell a telephone that simply gives you an outside line. More and more, we're selling our equipment as the interface between the telephone network and the computer."

That is essentially what Executone is doing with its new system for small business, and it is what other firms are doing with systems designed for much larger companies.

THE HOTTEST ITEM on the market today, according to the marketing people at Telecom Plus International, Inc., of Long Island City, N.Y., is the NEAX 2400, manufactured by Nippon Electric Corporation and introduced last September. It will be another year, Spievack says, before other manufacturers are ready to market anything comparable.

Telecom Plus boasts that the 2400 is the only device available "that combines features of voice and data communications, electronic mail, teleconferencing, facsimile, store and forward, and voice messaging in a truly nonblocking system."

What that means, says John Kondel, director of applications engineering at Telecom Plus, is that both voice and data messages can be sent simultaneously and that as many as 20,000 phones can be connected through the system and work at the same time. Previous state-of-the-art capacity, according to Kondel, allowed for far fewer phones in use before volume caused delays.

Data may be sent via the 2400 at extremely high speeds. In addition, a company can tie into external data bases, such as electronic text services. Modules can be added to create local area computer networks or to connect branch offices across the country.

Solomon J. Buchsbaum, executive vice president of customer systems at AT&T Bell Laboratories in Holmdel, N.J., predicts that within 10 years computer and telephone technology will have merged to the point that a user will speak to a terminal and a printed copy will be received at the other end of the line.

The breakup of AT&T and the decision to open the door to long distance competition has also opened the way to higher local telephone rates. AT&T had shifted $6.5 billion a year in subsidies from its long distance revenues to its 22 local phone companies; now that those subsidies have ended, state after state has been asked to permit higher local rates.

With AT&T no longer paying the subsidies, the way has also been opened for lower long distance rates. FCC Chairman Mark S. Fowler predicts they "will drop dramatically," citing estimates "that rates will be between 35 and 40 percent lower than they would otherwise be."

The FCC has proposed replacing the subsidies with long distance access charges, to be paid by residential and business customers and by the long distance companies. The proceeds from these fees would go to the local phone companies, to compensate them for providing access to long distance service.

On April 3, a fee of $2 per month, per line, would be imposed on residential phone users. By 1988, that would increase to $6 per month. The $6 fee would be imposed on businesses next year, but would not increase after that. The long distance companies would pay a "carrier access charge" of $25 per line.

Because it would raise local phone bills, the FCC proposal was immediately opposed in Congress. Legislation blocking it has been approved by the House and by the Senate Commerce Committee.

The House bill would prohibit the FCC from imposing the access charge on residential or single-line business phone users; the Senate bill would delay those charges for two years. Both bills would permit surcharges on multiple-line business users and long distance carriers.

Business groups, AT&T and Fowler have strongly opposed the House bill in particular. Jeffrey H. Joseph, vice president for domestic policy of the U.S. Chamber of Commerce, says of the House bill that it is "discriminatory and, in effect, amounts to a surcharge on business to subsidize selective users and geographic areas."



FCC Chairman Mark S. Fowler (left), shown with commission member Dennis R. Patrick, warns that local phone service will suffer if business is forced to subsidize it.

Opponents of the House bill point out that 3.9 percent of business users currently generate 61.7 percent of the telephone system's revenues, and that those firms will leave the system for cheaper, more efficient alternatives if costs are not equitably shared.

Fowler warns that many large firms could set up their own systems using microwaves, optical fiber, satellites, radio or cable TV lines.

"When large toll users bypass exchange facilities," he says, "they leave a heavy burden of fixed charge exchange costs to be borne by the remaining subscribers. Bit by bit, bypass by bypass, this exodus of large users makes telephone services less affordable to residences and small businesses."

If the legislation were passed, Fowler warns, "we would see two distinct

systems. One would be a group of efficient, state-of-the-art private networks for large users. The other would be a costly, deteriorating network for the public."

ALTERNATIVE LONG DISTANCE companies are opposing the access charge that would be imposed on them, contending it would have an "immediate and devastating impact" on their industry.

The heads of eight such companies—United States Transmissions, U.S. Telephone, Satellite Business Systems, EMX Telecom, MCI, GTE Sprint Communications Corporation, Western Union Telegraph Company, and Lexitel Corporation—argued in a letter to Fowler that under the FCC proposal they would have a much tougher time competing with AT&T.

Their concern extends beyond the access charge. Currently those firms receive a 45 percent discount from the rates paid by AT&T to local telephone companies for the interstate use of telephone lines because they receive inferior connections and thus cannot offer long distance service equal in quality to AT&T's. Under the FCC's proposal, that discount would drop to about 25 percent, without, the firms say, "any corresponding improvements" in connections.

This means, they contend, that they would pay rates that are significantly closer to AT&T's but would "continue to face the same dominant competitor and be subject to the same inferior grade of access."

Howard Crane, senior vice president for corporate affairs at MCI, predicts that unless the FCC modifies its proposal, many of the long distance companies will fall by the wayside.

"For the short term, MCI is going to be between a rock and a hard place," says Crane. "Our price has to be lower than AT&T's. AT&T plans to lower theirs 10 to 10.5 percent on average. We'll respond by lowering ours 5 percent to maintain a respectable difference. However, we would have to do that while our costs increase, shrinking our margin by 13 percent."

MCI, Crane says, "is big enough and well capitalized enough" to withstand this pressure for the next three years, after which all long distance companies will be on an equal footing in terms of both access charges and connection quality.

Clearly, governmental developments and technological achievements are combining to create a new age of communications—but, for many, it is a confusing new age. As Fowler says, "It's no wonder that the average telephone consumer's state of mind is somewhere between a busy signal and a disconnect." □



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The Solid New South

Bipartisan conservative coalitions have spread across a region that packs a big political punch.

By Seth Kantor

WHAT'S THIS? Mississippi's senior senator—a Democrat—gives tacit support to a rising Republican star in his state? GOP leaders in Georgia openly endorse a Democratic senator for re-election?

Both developments are evidence of a new type of solidity in the South. The South of yore, which could be expected to give a Democratic presidential candidate a clean sweep, is long gone. Nevertheless, the term Solid South is appropriate today.

That is because once-sacred party lines have blurred, and solid conservative coalitions have spread across the 11 states of the old Confederacy. The South has remarkable pivotal power in this year's national elections. North Carolina is a bellwether state, the outcome in Texas and Florida could decide who the next President will be, and ballots cast by blacks and Hispanics below the Mason-Dixon Line could determine which party controls the U.S. Senate next year.

Startling changes in Southern voting patterns have occurred over the last two decades.

First the straight Democratic ticket gave way to two-party politics. Then the bipartisan coalitions began taking hold. There was a sharp increase in voter interest—the Washington-based Committee for the Study of the American Electorate reports voting participation in the South lagged 28.3 percent behind the rest of the nation in 1962 but only 10.2 percent in 1982.

In addition, population shifts brought a big rise in the number of potential voters—and many other voters are on the way. U.S. Census Bureau projections indicate the South will have much greater ballot power by the year 2000, just four presidential elections down the road, than it does now. By then, more than twice as many people are expected to live in the South (98.8 million) than in the Northeast (46.4 million).

The South as the Census Bureau defines it embraces the District of Columbia and 16 states: Delaware, Maryland, West Virginia, Kentucky and Oklahoma (none of which were in the Confederacy), as well as Virginia, North and South Carolina, Georgia, Florida, Tennessee, Alabama, Mississippi, Louisiana, Arkansas and Texas.

Differences with the national Democratic Party on civil rights issues and a widening gap between Southern conservatives and liberal party leaders on economic issues were important factors in the demise of the South's old one-party system, which once prevailed in most of those states. California political scientist Nelson W. Polsby offers another explanation: widespread installation of air conditioning in the past generation.

Air conditioning of factories, offices, stores, homes and cars attracted industry from the Northeast and Midwest, he says, creating jobs that slowed the outflow of blue-collar workers and spurred development of large suburbs.

"Middle-class migration to the South created conservative suburbs similar to those in the North," says Polsby. "And as the entire region grew less polarized from the rest of the country, native Southerners began to vote Republican."

Twenty years ago, six of the states of the old Confederacy had no GOP congressmen and only one, Texas, had a Republican senator. Today there are 35 Republican House members, and Texas' John Tower has 10 party colleagues from Dixie in the Senate.

Republican gains—a phenomenon of the 1960s and 1970s—came at the expense of conservative Democrats. Bipartisan fusion of conservatives into a new movement is a phenomenon of the 1980s.

In Georgia, Republican Sen. Mack Mattingly has endorsed the 1984 re-election campaign of Democratic Sen. Sam Nunn. Other GOP leaders, such as Rep. Newt Gingrich, have followed Mattingly's lead.

Meanwhile, Sen. John C. Stennis (D-Miss.), 82-year-old dean of the U.S. Senate, has sent word home that he works well with Sen. Thad Cochran (R-Miss.), who is up for re-election this year.

In both Georgia and Mississippi, business interests play a dominant role in the crafting of bipartisan coalitions.

Mississippi's chief industries—wood and food products manufacturing, farming, cattle raising and fish harvesting—are watched closely by Cochran and Stennis, who both serve on the Senate subcommittee that appropriates funds for agriculture programs. Cochran is the subcommittee's chairman.

SOURCE: U.S. CENSUS BUREAU

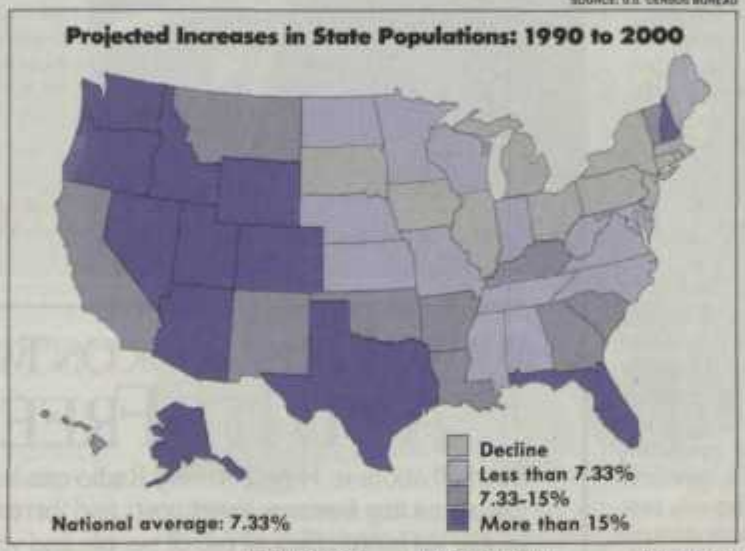


PHOTO: RICK BLOOM PHOTO: BRUCE HOERTEL PHOTO: ART STEIN



The South's growth—its population will soon be more than double the Northeast's—gives extra electoral impact to a blurring of party lines that notably involves (from left) Sens. Thad Cochran, John Stennis, Sam Nunn and Mack Mattingly.

A concentration of defense installations and defense contractors gives Georgia a major military payroll, and Mattingly is well aware that if the Democrats recapture control of the Senate in 1984, Nunn will become chairman of the Armed Services Committee.

By no coincidence, Mattingly made his first statement in support of Nunn when he spoke to members of the Georgia Chamber of Commerce, which has an obvious interest in protecting the state's economy.

A prominent Georgian, Jimmy Carter, is backing his former Vice President, Walter Mondale, for the Democratic presidential nomination. But a recent statewide poll shows many Georgia Democrats believe Mondale is too liberal on domestic issues and too weak on defense spending. Many support the more conservative views of Sen. John Glenn (D-Ohio).

The poll shows that if Mondale is nominated, large numbers of Georgia Democrats will probably defect—casting their votes for Reagan and thereby emphasizing the power of conservative coalitions in the New South.

Similar conservative activity could occur in Texas and Florida, the South's two biggest population centers, where the 1984 presidential election could be won or lost.

"Texas and Florida are the swing states of this year's national election, as Illinois and California used to be," says Austin Ranney, political scholar at the American Enterprise Institute, a conservative Washington think tank. He adds that Texas and Florida "are the only states where voter registrations have been increasing heavily."

The turnouts of blacks and Hispanics will be "critical factors" in both states, Ranney says. Those minorities comprise a third of the population in Texas. Mexican Americans there have been slow to register, but Tower could be a strong influence in getting out their vote—and tilting it toward his party.

TOWER, WHO IS RETIRING from the Senate after 1984, is heading the Reagan re-election effort in Texas, and he has always done well among Mexican Americans in his own campaigns.

Texas blacks, however, turned out in large numbers in 1982 to help defeat Republican Gov. William Clements. They could become a major force for the Democratic presidential candidate.

Statistics from the 1982 congressional elections show record levels of voting by blacks in much of the South. In six Southern states blacks make up 20 percent of eligible voters. Nationwide, the figure is 11 percent.

Reagan strategists are particularly concerned about North Carolina, which the President captured by 39,383 votes in 1980 and where 43.6 percent of eligible black voters (more than a half million people) remain unregistered. Efforts to get blacks registered this year to vote against Republican Sen. Jesse Helms could work against Reagan in precincts where voting the straight Democratic ticket is still the norm.

Helms infuriated many blacks in 1983 when he staged a prolonged but unsuccessful fight in the Senate chamber against establishing Martin Luther King's birthday as a national holiday. But he has fought for North Carolina on pocketbook issues, especially in his role as Agriculture Committee chairman, and he believes that will help him attract some black votes.

Among Senate incumbents up for reelection this year, Helms has the highest U.S. Chamber of Commerce cumulative rating—91 percent—for votes cast in support of business positions.

Some recent polls show Helms six to nine points behind his challenger, Gov. James B. Hunt. Other polls show it to be a closer race, and both candidates have raised large sums throughout the nation for their campaigns.

The Helms-Hunt contest is expected to ignite national interest exceeded, perhaps, only by the battle for the presidency. A few years ago that kind of interest in a Senate race would have been reserved for one in New York or Illinois. But it's a new political day for the South. □

At Bay in the City by the Bay?

Two political experts say the GOP appears to have given itself a shot in the arm by choosing Dallas as the site of its presidential nominating convention in August. But, they add, the Democrats may have shot themselves in the foot by choosing San Francisco for their convention in July.



PHOTO: KENNETH ROGERS—BLACK STAR

Network TV cameras are likely to focus on this kind of demonstration as the Democrats convene in San Francisco.

Democratic party officials do not intend for the unconventional California city to turn into a problem for their convention, of course, but Norman J. Ornstein, professor of politics at Catholic University of America, says it could be a "colossal" one, "especially if front-running Walter F. Mondale wraps up the nomination quickly."

If he does, says Ornstein, "action-craving TV directors will move their cameras out to the streets, where San Francisco's protesters will be waiting."

Ornstein expects that gay rights advocates and others will accommodate the TV cameras with demonstrations, "making the Democrats look foolish—and putting them on the defensive."

Another political scholar agrees. The Democrats may have set the stage for another series of party-splitting sideshows like those of 1964 and 1968, says Austin Ranney, past president of the American Political Science Association.

In 1964, when President Lyndon Johnson had the nomination cinched long before his party's convention began in Atlantic City, the cameras focused on a Mississippi delegation split—a divisive racial falling-out. In 1968, the nomination of Hubert Humphrey in the Chicago convention hall was overshadowed by televised antiwar rioting in the streets.

By contrast, the GOP's long-anticipated Reagan-Bush ticket is expected to win renomination this year in an atmosphere of party harmony in Dallas, a city where conservatives feel comfortable.

Texas was George Bush's political base when he served in Congress, and the state has been a Ronald Reagan stronghold since 1976, when Reagan soundly defeated President Gerald Ford in a hard-fought presidential primary.

Said Revlon founder Charles Revson: "In the factory we make cosmetics. In the store we sell hope."



PHOTO: DAVID WOODDELL

It's Not What You Sell, It's What They Buy

The key to marketing: Concentrate on the benefits a customer expects to get from your product.

By Morty Lefkoe

YOU KNOW what you sell to your customers. But do you know what they actually buy from you, and why they buy it? Do you know what they really expect to get from your product or service? And do you know how to market it so that they perceive it to be what they want?

The answer is no for most business executives. They are not aware of the distinction between what they sell and what their customers buy.

Failure to clearly make that distinction leaves a firm vulnerable to competition and prevents it from ever reaching its full sales and profit potential.

People do not really buy goods and services. They buy benefits they expect those products or services to provide. For example, people do not buy photographs; they buy memories. Women do not buy makeup; they buy the expectation that they will feel younger and more attractive and will look attractive to others. Revlon founder Charles Revson once said: "In the factory we make cosmetics. In the store we sell hope."

As a management science, marketing is new compared with production and finance. Far too many executives still take marketing for granted. They tell themselves: If we have a good product, price it right and let people know it is available, sales will be forthcoming. This is the "build a better mousetrap" philosophy. Many of its proponents have beaten paths to the doors of the bankruptcy courts.

And yet the principles of marketing are not difficult to understand and apply. Perhaps the most important thing to realize is that there are no absolute answers. Marketing is an approach, a process, an attitude, a way of doing business. It entails being guided in operating your business not by the "right answer" but by the right question: What benefits do potential customers want and expect to get (and are willing to pay for) from my product or service?

If you are willing to create a marketing strategy by continually looking at this question, your strategy will always be appropriate. Otherwise, it surely will be inappropriate at some future date.

Most companies are sales oriented rather than marketing oriented.

To be sales oriented is to focus on getting customers to pay for products or services you already offer. To be marketing oriented is to focus on what potential customers want and then to provide it.

MORTY LEFKOE *is president of Lefkoe Consulting, Inc., a Westport, Conn., marketing and communication consulting firm.*

The personal computer industry is a good example of an industry that, with a few exceptions, is sales oriented. It focuses so much on what it has to sell that it is virtually oblivious to what you want to buy.

Hundreds of companies have entered the personal computer field with brilliantly engineered hardware and innovative software. They advertise products' virtues as the research and development team or the executives see them—but not necessarily as customers see them.

As a result, advertisements try to lure buyers with offers of 16-bit computers, 128K RAM, the ability to create a "local area network" and a choice of CP/M or MS DOS, floppy disks or "Winchester" disks.

When you look at the ads for software, modems and other peripheral equipment, you become even more confused. You know what the sellers are selling but not what you are buying.

If you are considering purchasing a personal computer, you really couldn't care less about "bits" or "RAM."

WHAT YOU WANT to know is: Will the computer and the other things that go with it improve my effectiveness and my company's bottom line? If the answer is yes, you probably will buy. If not, you probably won't.

How many ads enable you to answer that question to your satisfaction? How many give you reason to believe that one particular piece of equipment will do the job better or more cheaply than other brands? Very few.

(This situation probably will change soon. In belated recognition of the importance of marketing, several computer firms have hired top marketing executives from consumer goods companies as their chief executives.)

A good marketing strategy uses what potential purchasers really want to buy as the basis for creating a dis-

tinction between your product or service and everyone else's. Distinctions are not discovered—they don't exist out there waiting for you to find them. They are created—made up out of nothing. Creating an imaginative distinction based on what customers want can enable you to offer a package of benefits so different that you have no real competition, even when you are selling a generic product—one not inherently distinct from what competitors sell. Examples include auto rentals, credit cards, insurance, and checking and savings accounts.

GAF once asked me to create a marketing strategy for its X-ray film. (This was some time before GAF discontinued its entire line of cameras and film.)

There was significant national concern over excess radiation from X-rays, so I suggested that the company distinguish itself from competitors by calling itself the "X-ray film manufacturer that is trying to reduce radiation exposure." The marketing strategy called for the company to do just that, showing radiologists how to process film so that patients had less exposure time.

GAF's film required the same exposure time as its competitors', but at that point other companies had made no such concerted effort to instruct radiologists. This case history demonstrates that your marketing strategy not only should determine what you do and how you do it, it can itself be the primary thing that distinguishes you from your competitors.

Let's assume that you are committed to making your firm marketing oriented. Then what?

A good marketing strategy has three interrelated steps:

- Researching to determine what benefits your potential customers expect to get from your products or services.
- Drawing a distinction between what you and your competitors sell, and augmenting your product with benefits that match as closely as possible those you have determined your customers are willing to pay for.
- Creating a plan to communicate your package of benefits, your real product, to prospective customers.

Last year I was hired to create a marketing strategy for Color King, a small professional photo-finishing lab in Hollywood, Fla. The following is a summary of how the three steps above were implemented in that strategy.

Step 1: The "things" that professional photographers buy include negative developing, custom prints and retouching. A survey of the company's customers was conducted. It showed that they insist on quality, service and good prices from the lab they choose. But why do they want quality prints delivered on time at a comparable price? They want their customers to be satisfied with the photos, so that they will get repeat business and referrals.

Step 2: The distinction between my client and every other photo lab that claimed to be providing the same things was based on what photographers really wanted. I recommended that the lab use the slogan: "You get the image on film, we do the rest. Color King—the Professional's Professional Partner." Ultimately what a professional photographer wants is a partner who will provide prints that will satisfy his or her clients.

Color King was not necessarily doing anything more, or better, than any other lab. What Color King was now selling was partnership, not prints. Obviously the company had to provide quality, service and a comparable price. But those are things a photographer would naturally expect from a partner.

Step 3: To communicate to potential customers that Color King was their partner, I came up with 17 actions that a photographer could reasonably expect such a photo finisher to take. Among them:

- Asking local professional photography associations what Color King could do to support them.
- Creating photo exhibits at major traffic centers that would showcase different professional photographers and the profession itself while showing off Color King's printing.
- Assigning a service representative to each professional customer.
- Offering to obtain the answer to any technical problem that a customer might encounter.

THE BUSINESS WORLD is filled with examples of successful distinctions. Charles Tandy distinguished Radio Shack from numerous competitors by sticking primarily to house brands to ensure quality control, by making sure employes were knowledgeable about technical qualities of products sold and by creating an efficient customer service department. His company's incredible growth rate attests to the accuracy with which Tandy identified what his customers really purchased when they bought electronic products.

Häagen-Dazs revolutionized the ice cream industry by creating two concurrent marketing distinctions. Having observed growing interest in health foods, it became the first national chain to offer an "all natural" brand that uses no artificial coloring or preservatives. And, after discovering that many consumers wanted a "richer" texture and would pay more for it, the company began offering "superpremium" ice cream that contains less air and more butterfat.

As recently as 10 years ago, most radio stations tried to appeal to everybody and programed a little bit of everything. A few marketing-oriented stations identified a unique market or demographic niche. Today almost every station devotes virtually all its time to one kind of programing, be it rock, news, talk, jazz or something else.

Despite its many successes, though, the marketing concept is far from being a panacea. Many different traits are required to produce a thriving company. But if being market driven is not the last word on creating a successful company, it is certainly the first. □

PHOTO: JON RILEY—FOLIO, INC.



One X-ray film manufacturer set itself apart from its competitors by teaching radiologists how to process film so that patients' radiation exposure time was reduced.

To order reprints, see page 57.



Those Pesky Overdue Accounts

You can prevent most of them, but what should you do when one slips by? Here is advice based on hard-won experience.

By Scott Witmer

MOST OF US try not to run nonprofit businesses. Yet, by failing to collect money that is due us we allow our firms to be robbed of many dollars.

The National Association of Credit Management estimates that collection costs and inflation reduce the value of a current-account-receivable dollar to 67 cents when it is overdue six months, to 45 cents when it is overdue one year and to 4 cents when it is overdue five years.

There are practical, effective methods for collecting those crippling overdue accounts. But by far the best way to deal with overdue accounts is never to have them.

I used to be nervous about discussing payment terms with customers and rarely did it. The resulting abuse to my good nature and my pocketbook cured my shyness. Customers rarely hesitate to say what they expect from the services or goods they are considering. Neither should you hesitate to discuss the terms under which you will meet their needs.

A business associate once facetiously offered me $1 million for my business, but quickly added: "—at the rate of $1 per month." Payment terms are as important as sale price.

Incidentally, one way to avoid some delinquencies is to offer a cash discount for prompt payment—a 1 or 2 percent discount, say, if a bill is paid within 10 or 15 days of the invoice date. Offering a discount usually has a more positive effect than imposing a penalty when an account is past due. But both can be worthwhile.

Discounts and penalties must be used with care, to avoid falling into illegal discrimination among your customers. Such credit terms should be put in writing, in advance.

Negotiation of such terms is proper, as long as both parties remain free to accept or reject the terms. Negotiation is inappropriate after the product has been provided.

If you allow your product to be provided before terms have been settled, you have lost your leverage and are dependent on your customer's sense of fairness.

An oral agreement is as binding as a written one, but an oral agreement provides no documentation. A difference can develop later concerning the original terms.

Unless your contract is complex or the stakes are high, there is no need for a lawyer to write the agreement. Notations clearly stating the terms on your usual preprinted invoice or proposal forms will usually suffice.

While you work at reaching an agreement, you should confirm pertinent information about your customer, preferably through outside sources.

Make sure your customer has the authority to commit to the terms being negotiated and is creditworthy. In the case of a business client, consider using a commercial credit research service like Dun & Bradstreet. My current annual payment to D&B is $750. Reports are issued on a prospect's background, credit and payment history.

I review my receivables file weekly, focusing attention on the invoice date.

You may be tempted to eliminate the research stage, but you do so at great peril. The terms you have negotiated will mean little if your customer does not follow through.

I review my receivables file weekly, focusing attention on the invoice date. I look for invoices that are approaching the end of the credit period and mail a statement reminding the customer that payment is due.

DESPITE PRECAUTIONS, you may be unsuccessful in collecting on time. You should then ask yourself these questions:

Is the amount of the debt worth the cost and inconvenience of pursuing it further? Do you wish to continue to do business with this customer? What effect will further action have on you or your other customers? Have you neglected something or done something that is contributing to the nonpayment of the debt?

If you wish to proceed, you have the following options:

- If the account has continued to age after you have mailed one or two statements, follow with a phone call. Be polite but firm. After a reminder that the account is past due, try to determine why it remains unpaid. Is the customer dissatisfied? Is an honest oversight or temporary inability to pay involved? If no factor within your control is causing the delinquency, ask the customer when you can expect payment, insisting on a specific answer.
- Draft a letter to state your position; ask for full payment by a specified date 10 to 15 days from the date of the letter, and indicate the consequences of continued nonpayment beyond that date.

State the issues succinctly and without emotion. Avoid insults and attempts at humor. Your little joke or verbal jab is more likely to create complications than cooperation. Do not threaten legal action with which you do not intend to proceed.

You can buy form letters from office

SCOTT WITMER *is the owner of ServiceMaster of Allentown, a Pennsylvania professional cleaning franchise.*

supply companies, professional and trade associations, and small business assistance organizations. For a fee, an attorney or a professional bill collector will write on your behalf.

• Occasionally, a personal interview may replace or supplement phone calls and letters. Whenever possible, conduct the meeting in your office—the home team has an advantage. Be conciliatory but businesslike, and follow up the interview with a letter reviewing the understandings reached during your meeting.

• Sometimes the only way to elicit payment is to adjust your terms so that it becomes easier for your debtor to pay you.

For example, installment payments based on a promissory note allow your debtor to divide the debt into smaller, more manageable units.

Another possible adjustment is payment in trade. I once completed a job for the owner of an automobile service center, and he neglected to pay according to the terms. I arranged for him to pay the debt with gasoline and service. On another occasion, I accepted a scaffolding set in payment. Almost anything of value to you can be substituted as compensation.

PHOTO: DUN & BRADSTREET



It is wise to research a customer's credit history, perhaps by using a service like Dun & Bradstreet—whose central data base, stored here, contains material on 5.3 million firms.

Transferring customer debt to a charge card may be an inexpensive way to resolve your problem. You will normally lose 1 to 5 percent, depending on your agreement with the charge card company.

But sometimes nothing will work except a cancellation of the debt in exchange for a partial payment.

Whichever corrective adjustment you undertake, be certain you and your customer agree precisely on its nature. Otherwise, you may find yourself stuck with both adjustment and delay, or, at worst, you may have to resort to salvage measures. Such measures are time-consuming and expensive; use them only when prevention or correction will not suffice. Possible salvage measures:

Arbitration. Ask an objective third party to referee a dispute. The Better Business Bureau, a nonprofit intermediary between business and consumer, offers an arbitration process that is legally binding when both parties agree to abide by the arbitrator's decision. While BBB is not a debt collection agency, its assistance is valuable when nonpayment results from a dispute over terms or from customer dissatisfaction.

Mechanic's lien. If your work or materials improve real property (land or permanent structures), you may be able to record a mechanic's lien with the clerk of the county where the property is located. You will then have a limited period of time in which to sue to foreclose the lien, and your lien must be settled before a potential buyer can receive clear title to the realty.

Collection agencies. Commercial debt collection services vary significantly in their charges, scope of service and procedures. Typically, charges are one third to half of the outstanding debt, but can range from 10 to 60 percent. Recent legislation has restricted the conduct of commercial collectors, but it is still wise to inquire about a company's practices, to make sure that your own reputation will not be damaged by heavy-handed collection efforts.

Small claims court. If your claim is under a specified amount—currently $4,000 in Pennsylvania—you can in a number of states file an action quite inexpensively in a small claims court. You should thoroughly research and document your position, attempting to demonstrate, in the usually informal civil hearing, the validity of your claim, through physical evidence and testimony. Small claims legislation differs from state to state, so be sure to check the laws and procedures governing your own locality.

Litigation. When simpler methods have failed to collect a debt, you can consider bringing suit. An attorney will study the account history, spell out options and corresponding costs, and review past decisions on related litigation. It is perfectly acceptable and advisable to ask the attorney about fees; charges may be based on an hourly rate or on a percentage of the eventual award. Before you commit yourself to litigation, be reasonably certain that it is worthwhile and necessary—and that the claim is collectable.

Unpaid accounts are inconvenient, frustrating and costly, but usually avoidable. Good business practice, which can be developed like any habit, will help you to avoid or correct most delinquencies.

What is required from you is constant vigilance and disciplined application of effective procedures. Sometimes that is hard work, but the alternative is far worse. □

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BUILDING AMERICA:
The Challenge Continues

DON'T MISS
THE U.S. CHAMBER'S 72ND ANNUAL MEETING

WASHINGTON, D.C.
APRIL 29-30 & MAY 1, 1984

Saturday, April 28

Registration Desk Open
Washington Hilton Hotel
Saturday: 1:00-6:00 p.m.
Sunday: 10:00 a.m.-5:30 p.m.
Monday: 7:30 a.m.-2:00 p.m.

Sunday, April 29

All Events at Chamber Building

U.S. Chamber Building Tours
1:00-2:30 p.m.
Visit this historic building on Lafayette Square where the business community helps shape national policy.

"Ask Washington":
2:30-3:30 p.m.
Participate in a live taping of the U.S. Chamber's daily TV call-in program, during which viewers can "talk back" to today's leaders. Watch and be part of this exciting TV program. Aired nationally from the BizNet studio from 9:00-10:00 a.m., EST.

Annual Meeting Reception
3:30-5:30 p.m.
Back to the "old fashioned" hospitality this year in the Chamber's Hall of Flags. Meet the U.S. Chamber's officers and the other delegates. Eat, drink and be merry. (Admission by ticket.)

Monday, April 30

Small Business/Prayer Breakfast
"Faith in America"
7:00-8:30 a.m.
Congressman Andy Ireland, Chairman of the House Small Business Subcommittee on Export Opportunities & Special Small Business Problems, will speak. Outstanding musical entertainment and a special, inspirational speaker.

"Building America: The Challenge Continues"
9:00-10:30 a.m.
The blare of trumpets, the roll of drums furnished by the U.S. Marine Band and Drum and Bugle Corps at Constitution Hall. President Reagan invited to speak. Chairman Ed Dodd keynotes.



Ronald Reagan (invited) | Howard Baker | Jack Kemp | Andy Ireland | Tony Bennett | Howard Metzenbaum

Annual Luncheon
"The Future of Conservatism"
12:00 noon-2:00 p.m.
Hear from a renowned international leader with insights on the future. The "gavel" of the chairman passes to the 1984 leader. Attend a live taping of the Chamber's "It's Your Business" (seen on 154 commercial TV stations), featuring a sparkling debate on the future of conservatism. Congressman Jack Kemp and Dick Lesher face Senator Howard Metzenbaum and another strong opponent on the issue.

"Campaign '84"
2:30-4:00 p.m.
A no-holds-barred mock presidential convention. You can take sides. Hear GOP's Howard Baker and a DEM leader tell why their parties' candidates are the best in '84.

Congressional Receptions
(Various Times and Locations)
Arranged by many state and local chambers and associations to end in time to permit you to attend the Annual Dinner.

72nd Annual Dinner
Entertainment-Dance
8:00-11:00 p.m.
A big social event with singing star Tony Bennett, excellent food and a delightful orchestra. Many chambers will host their Congressional Delegations at this gala event.

Tuesday, May 1

An optional day at no extra cost for delegates and spouses (except spouse's tour).

Federation Breakfast
7:00-9:15 a.m.
Watch the Chamber's daily news program carried on TV throughout the country, "BizNet News Today." The latest news from the overnight wires. Have a continental breakfast on us and "rap" with the chairman and president of the U.S. Chamber.

Federation Workshops
9:15 a.m.-12:00 noon
Chamber workshops, with experts to explain and respond. Among them: Coalition Building, Public Education, Lobbying Techniques, Video Conferencing, International Trade, etc.

Spouses' Program

Tuesday, May 1
8:30 a.m.-12:00 noon
Visit Gunston Hall Plantation. Start with coffee at the Washington Hilton. Then to historic Gunston, the colonial home and gardens of founding father George Mason near Mt. Vernon. Breakfast at the Plantation. Champagne as you return to the hotel.

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The Key To Choosing a Personal Computer

Take a hard look at the software. The programs a computer can use really make the difference.

By Jim McNitt

WITH MORE THAN 300 companies building over 400 different personal computers today, how is a person to choose the right one for a small business?

A common mistake that novices make is to buy a computer first, assuming that the necessary software is available.

The cardinal rule is to find good software first—software that suits your tasks and, if possible, your personality. Then let your choice of software for word processing, accounting, inventory control or other purposes dictate the hardware you select.

Unfortunately, a given software program is compatible only with certain personal computers (or microcomputers, as they are also called). This is extremely important, since it can vastly limit the usefulness of the computer you buy.

Why will programs run on one computer but not another? The major factor determining compatibility is the disk operating system, or DOS (it rhymes with floss). The disk drive and the information-storing floppy disks that go into it are the microcomputer's "data bank."

A simple task like telling a computer to make a printout is easy—for you. You just flip a power switch, load a program and type a few words. But for the computer, analyzing and executing your command is a complex process involving thousands of steps—all supervised by the DOS.

In the early days, when Apple and Tandy Corporation's Radio Shack dominated the personal computer market, it seemed as if most programs were written to run on either Apple DOS or TRS DOS. The introduction of the IBM Personal Computer in 1981 added one more major DOS—Microsoft DOS—to the alphabet soup. But as these became superstars, another DOS was quietly winning favor—the Control Program for Microcomputers.

CP/M has become the closest thing there is to an industrywide DOS. The market leaders—Apple, Radio Shack, IBM and Commodore—continue to sell their own systems, but they have also made certain that their machines can be adapted easily to use CP/M as well. So have the makers of over 300 other personal computers. (Adapters called "CP/M cards," plus the necessary CP/M software, can add $300 to $1,000 to the cost of a computer.)

TODAY, buying a computer that does not use CP/M or cannot be adapted to do so is like purchasing a stereo turntable that cannot play 33⅓ rpm records. CP/M is the "compatibility window" onto a universe of powerful business software.

There are, of course, worthwhile programs for systems other than CP/M. Apple DOS, TRS DOS and MS DOS all may be used with a wide selection of

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business software. The IBM PC, however, has tended to eclipse the other microcomputers, particularly for small businesses.

Dozens of copycat computers claiming to run IBM PC software are now available. And thousands of programs are being written for or adapted to it. By 1985 or 1986, software available for the IBM PC and other "IBM PC compatible" computers may rival or even exceed the universe of CP/M programing.

Other advances are sure to come. But meanwhile, unless you have good reasons for doing otherwise, stay with proven software programs and hardware. A computer that runs CP/M is one sure way to play it safe.

Suppose you have determined what software you want, but you find the programs do not all run on the same DOS. You can often compromise your secondary needs without ill effects. If your primary objective is, say, computerizing your client files, find the best data base management program you can and then select the hardware to go with it. This may mean having to settle for your second choice in other software programs, if they are to be compatible with your most important computer function.

As a rule, however, if you plan to computerize your accounting system—even in the distant future—you should make accounting software your pivotal selection. There is an abundance of good word processing, spreadsheeting and data base management programs, but good accounting software to match the needs of a particular business is still rare.

Personal computers are not the place to look for no-name bargains—primarily because future software development is so important. Unless a model is selling very well, it is unlikely to attract the attention of software authors, who know a mass market for their products already exists among Apple, Radio Shack and IBM PC owners.

Unless your bargain model is fully compatible with a major brand, do not buy it. Full compatibility—disk *and* software compatibility—means that the copycat will "read from and write to" any disk intended for the big-name machine. Hence, you should be able to purchase any program formatted for the IBM PC and run it on an IBM PC copycat model. You should even be able to swap disks between the two.

How do you determine if a bargain microcomputer is fully compatible with a name brand? It is not enough to take the manufacturer's word for it. The best way to find out is to check *InfoWorld*, *Personal Computing* and other computer magazines for reviews of a given machine and the software it is said to use. Most computer stores stock back issues. Computer dealers should also know if there is a local club made up of users of a certain model.

Such a group can be very helpful to you. If, for instance, you have a specific IBM PC compatible model in mind—say the Eagle, Corona or Hyperion—chances are that someone in the IBM PC user's group already owns one. Word of a new computer's virtues, as well as its flaws, travels swiftly on the user grapevine.

You are no doubt wondering how much memory your microcomputer should have. It is customary to discuss computer memory in terms of "kilobytes" and "megabytes." One kilobyte (K) equals 1,000 bytes—or 1,000 characters, such as letters, numbers or punctuation marks—of memory capacity. A megabyte is 1 million characters of memory storage.



A "64K" personal computer means a machine with 64 kilobytes, or 64,000 bytes, of "random access memory," or RAM. This is the computer's internal working memory. It stores both programs and data.

JUST HOW MUCH information does 64K of RAM represent? Not much. Its 64,000 characters are equal to only about 35 double-spaced typewritten pages—not enough for a small company's typical 1,000-name mailing list.

Furthermore, usually at least half of those characters—30,000 or 40,000—may be needed to store your word processing, spreadsheeting and other software instructions.

Fortunately, it is seldom necessary to have either your entire set of programing instructions or all of your data "in RAM" at any one time. Even so, for business tasks, 64K is the minimum amount of memory you will need. And the more RAM you have, the more room there is for programs and data.

Today, powerful microcomputers with RAMs of 128K, 500K and even more are available at prices under $10,000 and, in many cases, under $5,000. Not long ago, 500K could be had only in mainframe computers costing hundreds of thousands of dollars.

How is it that a computer with only 30,000 or 40,000 characters of available RAM can be used to process records containing hundreds of thousands of characters of data? Enter the floppy disk drive.

The disk drive itself spins the disk, or diskette, at something like 300 rpm. As the disk rotates, a "drive head" reads data that has been encoded on the disk's magnetic surface. Disk drives can also record data, in which case the drive head is said to "write to" the disk.

Disk drives can locate information anywhere on a disk and send it to the computer's memory at the rate of tens of thousands of bytes per second. With disk drives, hundreds of kilobytes of data can be read from a disk, processed in the computer's central processing unit and written back onto the disk to make room in the RAM for more data—all within seconds.

Computers are not the place to look for no-name bargains.

As with computers themselves, disk drive systems come in a range of memory capacities—from "single density" floppies that can store about 100K of data to "quad density" disks that hold around 500K.

One way to handle vast amounts of data is to spread your records over numerous floppies. But when more than a handful of disks are involved, this becomes awkward. The alternative is a "hard disk" drive, widely known as the Winchester, which contains an unremovable disk capable of storing five to 50 megabytes—or 5 million to 50 million characters—of information.

At a minimum, your small business computer needs two disk drives of at least 100K apiece, and preferably 200K or more.

Why *two* disk drives? For security. Though extremely reliable, floppy disks still have been known to mysteriously "crash," irretrievably dumping all the information on them into the cosmic void. More frequently, accidents happen. A few drops of coffee, a magne-

tized paper clip, cigarette ashes or just plain rough handling is enough to destroy the delicate memory patterns encoded on their surface.

The best way to defend yourself is with duplicate or backup disks of all important files. Duplicating a disk is a fast and easy process if you have two disk drives. It can be done with one drive, but this is tedious and error prone.

Most firms begin with a pair of floppy disk drives (at $250 to $700 each, with disks costing $2 to $5 apiece), then add a hard disk drive ($1,500 to $3,000) if it becomes necessary to accommodate enormous volumes of data.

THERE IS ONE additional issue: You must choose between an 8-bit and a 16-bit machine. (Bits refer to the tiny units of data that make up one byte—there are eight to a byte.) Eight-bit machines are less expensive and, right now, they offer a wider range of software. But this software edge is sure to be transitory, as 8-bit programs are upgraded to 16-bit versions.

Technically, 8-bit computers have a "data path" that is one byte in width. This means that data is marched from the memory to the central processor one byte at a time. By contrast, the 16-bit computer's data path is two bytes wide. As a result, 16-bit machines (like the IBM PC) handle data more quickly—and they can handle more of it.

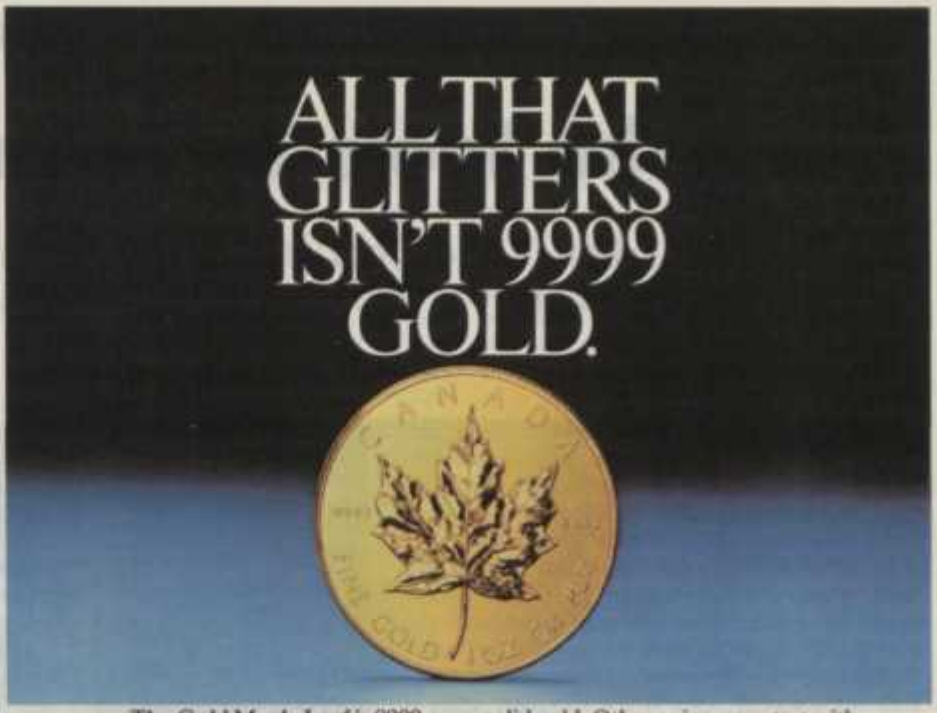
Another advantage of increased speed and increased memory power is the ability to "multitask," or perform two jobs at once, such as processing monthly customer statements while printing out the employe payroll.

The 16-bit machines also permit use of integrated software, a newer software in which several applications—such as spreadsheeting, data base management and graphics—are combined on one disk with the same commands and easier data interchange between programs.

If your current files are small and your software needs are modest—say, some financial spreadsheeting and word processing—the 8-bit computer is likely to provide all the micropower you will need for years to come. But if you anticipate needing more than one computer work station in your firm, or if you already have extensive files, then the speed, muscle and multitasking capability of a 16-bit machine will be worth the added investment.

Perhaps the most common complaint among 8-bit personal computer users is that they have outgrown their system. With a 16-bit machine, your company can grow faster, harder and longer before feeling the computer's limitations. □

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The Tools To Do the Job

When Hughes Tool went public, James Lesch was ready to lead it through a decade of rapid growth.

By Grover Heiman

JAMES R. LESCH began working for a privately owned corporation in 1946, eventually rising to senior vice president. Then, in 1972, the company went public, and Lesch became president and chief operating officer.

In all of his 26 years with the corporation while it was privately owned, Lesch never saw, spoke to or otherwise communicated with the sole stockholder, Howard R. Hughes, Jr.

Hughes, the legendary billionaire recluse, was not a stockholder in the company after it went public. As a result, Hughes Tool Company escaped the turmoil that has enveloped the Howard Hughes estate since Hughes' death in 1976.

Lesch, who became president and chief executive officer of Hughes Tool in 1979 and chairman in 1981 (he gave up the presidency in 1982), has been a guiding force in the transformation of Hughes Tool. Once a small company that made bits for drilling through rock, along with other oil drilling equipment, Hughes Tool has become a large firm that supplies a variety of equipment and service to the oil and gas exploration and production industries throughout the world.

After Hughes Tool went public, sales rose from $100 million to a peak of $1.76 billion in 1981. The pronounced slump in the petroleum and natural gas industries pushed sales down to $1.6 billion in 1982 and to an estimated $1.2 billion last year.

But now the number of drilling rigs in operation is rising, and that is the measure of Hughes' prospects.

From a peak of 4,530 active rotary rigs in the United States at the end of 1981, the count dropped to a low of 1,807 in April, 1983; it inched back up to slightly over 2,000 by the end of July.

Hughes had geared up for the higher figure, and when the bottom fell out of the industry, Lesch and his management team developed a strategy for managing during a downturn: reduce costs, inventories and accounts receivable. The payroll was reduced by 6,500 from a high of 19,300 worldwide.



Once known primarily as a manufacturer of drilling bits, Hughes Tool Company under James R. Lesch now supplies its customers' needs not only while they are drilling for oil but while they pump it.

"When the drilling upturn occurs," says Lesch, "Hughes Tool Company intends to be in a position of strength and leadership in our industry."

Lesch thinks that increased domestic drilling is crucial to the nation as well as to his company. "We are one of the few industrialized nations that could become self-sufficient in energy," he says. "I'm still an advocate of that—we should continue to get a percentage of our oil from foreign sources—but we shouldn't let ourselves get into a critical position from a national preparedness standpoint."

He laughs when he recalls his first brush with an acute fuel shortage. During World War II, while General George S. Patton's Third Army was making a dash to the Rhine, Lesch was commanding an ordnance repair company. His outfit raced into Metz, France, with the fast-moving armored columns. When a temporary retreat became necessary, his vehicles were out of gas.

Luckily, Lesch found a shot-up tank car that still had a small supply of 65 octane fuel in its unpunctured bottom. "It got us out of there," he says, "pinging all the way."

Earlier in the war, when Lesch was stationed at Rock Island, Ill., he, another lieutenant and the lieutenant's wife played a lot of bridge. "We got tired of playing three-handed," Lesch says, "so I called up 'Zee' Meeks, a girl I had been dating for several years in Tipton, Okla., and asked if she would like to come up and make a fourth. I wouldn't have married her if she hadn't known how to play bridge."

The former Zelma Meeks is the mother of Lesch's four sons.

Lesch himself grew up as one of 10 children, on a marginal grain and cotton



farm in southern Oklahoma. He was born there on July 13, 1921.

Living with a sister, Lesch attended the last two years of high school in Tipton. He says his sister had the most influence on his career. She urged him to go to college, and since he had a mechanical bent—whetted by working with farm equipment—he decided to be a mechanical engineer. He enrolled in the University of Oklahoma in 1938 and began working his way through, holding as many as four jobs at one time.

When the United States entered World War II, Lesch was in his last year of Army reserve officer training at the university. He volunteered for the armored forces, even though his training had been preparing him for service with the field artillery. In May, 1942, the Army commissioned him in the ordnance corps, and two years later Lesch, as a first lieutenant, commanded his own vehicle maintenance company.

His experience during World War II, Lesch says, was great management training and played an important part in shaping his management philosophy.

Leaders, he feels, must be visible—out front. He was impressed by Patton's visibility (Lesch saw him many times). Moreover, keeping Lesch's unit capable of doing its job called for a resourcefulness that is invaluable in a manager; for example, Lesch's men always ate well during the famous dash to the Rhine, because Lesch was quick to help when the quartermaster trucks carrying supplies needed repairs.

DISCHARGED IN THE spring of 1946, Lesch re-entered the University of Oklahoma to finish his final two semesters. One day a professor announced that some people from Hughes Tool would be on campus the next day to interview. Lesch already had a job waiting with an engineering firm, but the professor suggested that Lesch go through the interview, just for the experience.

"The other job meant starting out over a drafting table," Lesch recalls. "Hughes wanted me to be a field engineer. All my life I had been working out of doors, and that appealed to me."

Lesch began by working out of Hughes' Oklahoma City office, spending his time on drilling rigs that used the famous Hughes roller bit—then, as today, the Rolls-Royce of drilling bits.

By 1946, Howard Hughes was already a legend as a moviemaker, inventor and aviator. The year Jim Lesch graduated from high school, for example, Hughes and a crew set a new around-the-world flight record of 91 hours. When Lesch joined Hughes Tool, Howard Hughes was on the West Coast, putting finishing touches on the world's largest airplane—a flying boat made of spruce—and building an aerospace division of Hughes Tool that soon became a major helicopter producer.

PHOTOS: HUGHES TOOL COMPANY



Hughes Tool Company was born in 1909, when it began making a unique bit for drilling through rock. Owned for decades by Howard Hughes, the firm went public in December, 1972.

Hughes Tool Company was the creation of Hughes' father, a Keokuk, Iowa, lawyer who invented a unique bit for drilling through rock; production began in 1909 in Houston. When Howard Hughes, Sr., died in 1924, his 18-year-old son took charge of the company.

The company's growth depended directly on drilling rig activity. Essentially a single-product firm, Hughes Tool leased its bits. Through the years it concentrated on improving the bits and serving its customers.

Jim Lesch was transferred to the company's Casper, Wyo., office in 1947, as a field engineer. As in Oklahoma City, he spent most of his time on drilling rigs, helping customers solve their problems and gathering data that engineers in Houston could use to improve the famous bit.

Lesch returned to Oklahoma City in 1953 to become regional engineer for all Hughes operations north of the Red River. In 1954 he became district sales manager for Oklahoma, and a year later divisional sales manager for Oklahoma and Kansas. Three years after that, he moved to Houston as manager of rock bit sales.

His rise continued: In 1960 Lesch was promoted to general product manager. Then, in 1962, he was elected a vice president and put in charge of product planning and administration. In 1964 he was named to the in-house board of directors. By that time, Hughes Tool was undergoing considerable expansion, despite its absentee owner.

Howard Hughes had begun his metamorphosis into the ultimate recluse. By 1966 he was holed up in a Las Vegas hotel's penthouse and drawing grand plans for developments in that area. Hughes sold his Trans World Airlines stock in 1968 for a reported $566 million and began investing in Las Vegas real estate.

Howard Hughes' involvement in Las Vegas hotels was felt in Houston. The hotels were held in the name of Hughes Tool, and as a director of Hughes Tool, Jim Lesch had to apply for a gambling license from the state of Nevada.

"I made a mistake," Lesch says with a laugh. "I gave as references some of the people I had known back in those small towns in Oklahoma. Some of them said they weren't at all surprised, that they knew all along that Jim Lesch would come to a bad end."

In 1968 Lesch became one of two senior vice presidents under Raymond Holliday, the executive vice president and the sole Hughes Tool executive with access to Howard Hughes—if only through memoranda and infrequent phone calls. Lesch was general manager of the oil tool division; the other senior vice president headed the West Coast operations division. The three constituted the company's executive committee.

"No one ever thought Howard would sell Hughes Tool," Lesch says. But during a board meeting in Mexico in May, 1972, while Hughes was incommunicado in a Nicaragua hotel, Holliday received a phone call. Hughes told him to start planning to take the oil tool division public, under the Hughes Tool name.

Hughes Tool Company was launched as a public firm, incorporated in Delaware, in December, 1972; 5 million

shares of Howard Hughes' stock were offered at $30 a share. All of the shares weren't taken immediately; as Lesch puts it, "Some investors wouldn't touch the stock with a 10-foot pole, because they figured something bad was about to happen."

There was some cause for the investors' hesitation. Domestic drilling had declined for years, reaching a low point of 900 active rigs in 1970. It had climbed back to slightly over 1,000 in 1972—far below what was then the postwar high of nearly 3,000 active rigs.

Hughes Tool was a supplier of two items—drill bits and tool joints. Combined, they accounted for more than 90 percent of sales.

"There were times when it would have been nice to have the option to sit down with Howard and talk over some ideas for diversification," Lesch says. "For example, if we had had the opportunity after the TWA sale to receive some of the proceeds, we could have built this thing a little faster into a fabulous company."

Holliday, who became chairman and CEO of the public company, shared with Lesch a vision of supplying equipment for the entire drilling process and of branching into the production side of the business.

They wanted to continue serving their customers after the wells had been drilled and were pumping oil.

When Hughes Tool began an extensive acquisition and capital improvement program, all signs pointed to an upsurge in drilling activity. By 1981 nearly 4,500 rigs were operating in the United States.

But in that same year, economic changes began eliminating Hughes' customers. Crude oil prices declined, investment capital shrank, natural gas demand declined, cash flow declined for major oil companies and independent operators, interest rates rose and bank lending policies tightened. Hughes Tool's management put the brakes on further expansion.

"Just as we were nearing the completion of our long-range program," Lesch says, "the bottom fell out. But we are ready now when drilling activity goes back up."

The company predicts over 4,900 drilling rigs operating worldwide by 1986, and its 33 manufacturing plants are prepared to handle the traffic.

By that year, Jim Lesch will have reached the normal retirement age. After retiring, he will have two more years as a board member, and he expects to remain active as a director on other corporate boards and deeply involved in outside activities.

A PAST CHAIRMAN of the Houston Chamber of Commerce, Lesch is now a director of the U.S. Chamber of Commerce. As the Chamber's natural resources committee chairman, he is a leading backer of energy deregulation.

"I simply cannot believe," he says, "that anyone in their right mind wouldn't realize that the decontrol of oil has had some impact on the lowering of oil prices. And I frankly think that with immediate decontrol you would see further downward pressure on natural gas prices."

Jim Lesch tries to find time for hunting and fishing, but he golfs less these days. "I play golf like an 85-year-old man," he says with a slow grin. "I'm the kind of guy who hits the ball maybe 175 yards down the middle. About two thirds through a round not long ago, my group told me I played the most uninteresting golf they had ever seen, just hitting the ball straight down the middle."

And that seems to sum up Jim Lesch—playing it straight down the middle as he works toward the goals he has set for himself, his company and the nation. □

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A Forgotten Law To Aid Small Firms

By Tony Mauro

Mary Collins of Impro Products has invoked the Equal Access to Justice Act. It permits small companies to recover legal fees if they show that the federal government has wronged them.



PHOTO: DAVID WALKER

Lawyer David Stewart says use of the law is so low that it is "shocking."

MARY COLLINS of Waukon, Iowa, knows how to increase the milk production of dairy cows. She has also come to know how to fight the federal government.

Collins is president of Impro Products, Inc., and is in the midst of a lengthy and costly court fight with the Agriculture Department over the licensing of one of her products.

By making use of a little-known federal law, she may emerge from the dispute with a whopping government check to cover her legal costs.

She invoked the Equal Access to Justice Act of 1981, which was aimed at placing small businesses, in particular, on a more equal footing with the federal government in civil disputes that bring them before a judge or administrative appeals board. Under the law, winning businesses—and individuals and certain other qualified groups—are entitled to recover legal fees from the government if the agency involved cannot show that its position in the dispute was "substantially justified."

Use of the law has been mystifyingly low, even though it was touted as small businesses' best way of fighting back against government arbitrariness. Fewer than 200 petitions have been filed in the courts, and fewer than that number in administrative proceedings—although the government loses an average of 12,000 civil actions a year.

Business groups, including the U.S. Chamber of Commerce, are pushing for renewal of the law before it expires September 30, and they are hoping that in the process, Congress will fine-tune the legislation in ways that will encourage more business people to follow Mary Collins' example.

"Any business in a position like mine should use the law," says Collins. "It's our right."

Collins' fight began 14 years ago, when her firm tried to market a product based on a newly patented process that used antibiotics to increase dairy cows' milk production.

"There was a potential for millions of dollars in sales," recalls Collins. "The field was wide open."

The Agriculture Department gave the company a six-month license to sell the product on an experimental basis. Then department researchers conducted tests and issued a report declaring the product ineffective. The department terminated the license. Even the foreign market for the product dried up because of the negative report.

"They set us back a lifetime," says Collins.

Confident that the product was sound, she fought the negative report. Using the Freedon of Information Act, she and Washington lawyer Harold Carter obtained the test results.

"The test was totally false," Collins says. "Less than one third of the cows were injected according to the proper schedule. Our directions were not followed."

The company sued, claiming arbitrary and capricious action by the Agriculture Department. After years of litigation, Collins prevailed in 1982 at the district court level.

Says Collins, "The government has awesome powers. They kept us from being able to exploit our patent for 14 years."

Impro's legal bills had piled up besides. That is where the Equal Access to Justice Act came in. Since the government's position had been ruled to be unsubstantiated, Collins was able to invoke the act.

But the Agriculture Department resisted the action for legal fees, and it appealed the district court ruling on the report. "There isn't anything they haven't done to make it expensive for me," says Collins.

LAST AUGUST a judge awarded $244,000 to Impro. But the fight is not over. The department is appealing the fee award. Meantime, a federal appeals panel has sided with the government on a technical aspect of the dispute over the report. The panel's ruling allows Impro to proceed with the suit on constitutional grounds, however. Whether Impro ever gets the check for its legal fees depends on the outcome.

Government costs under the Equal Access to Justice Act have been nothing like what they were originally forecast to be. One estimate placed the first-year price tag at $69 million in awards for more than 5,000 winning litigants. Actually, claims have cost the government less than $3 million total in more than 2½ years. Only about 75 awards have been made altogether.

Many of the awards have gone to public interest groups or individuals, rather than small businesses.

"It's shocking how low the use of the law is," says Washington attorney Da-

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TONY MAURO *is the Supreme Court reporter for Gannett News Service.*

vid O. Stewart, who prepared a handbook on the law last year. He attributes the low numbers to ignorance among lawyers and clients alike.

Adds Sam Giordano, a staff attorney for the Small Business Administration's advocacy office, "The problem is that there's no organization of lawyers representing small businesses to get the word out in the same way that, say, organized environmental lawyers would."

EVEN AMONG lawyers who are aware of the law, the tendency may be to shy away from a fresh battle with the government so soon after having won the war. Says Michael Marino, a Fairfax, Va., attorney who won an award under the act for a Washington firm in a dispute with the National Labor Relations Board:

"The government agency sees it as a direct attack on them when you seek recovery under the act. They pull out all the stops."

Samuel Roth of the U.S. Chamber of Commerce Small Business Center also thinks the expense of fighting for recovery of legal fees is a disincentive:

"Most small businesses don't have their own legal departments. When the government beats on their heads, they don't have the resources to fight back. They look at the expense involved and back off altogether."

Judges interpreting the act haven't helped, either. Frank Swain, SBA chief counsel for advocacy, notes that key provisions of the law have been construed differently by different judges.

For example, the law states that fees can be recovered only if the "position of the United States" is deemed substantially unjustified. "Position of the United States" sounds like a simple enough term, but courts have struggled with its meaning since the act took effect.

The problem: If the government acts unreasonably in a dispute for several years but then agrees to a reasonable settlement before trial, which stance is the "position of the United States" for purposes of the act?

If only the final position is considered, a business that has suffered unjustly up to that point loses out. Judges have ruled both ways on the issue; they have also shown uncertainty about the meaning of "substantially justified."

A bill reauthorizing the act is currently before the Senate. Among changes it would bring:

- A 60-day deadline for payment of the fee award once the government loses a case under the law. Currently there is no deadline, and litigants report lengthy delays in receiving payment.
- Elimination of a sunset provision requiring periodic reauthorization of the law, making it a permanent mechanism for recovering legal fees.
- An increase in the net worth ceiling that defines who can sue. Currently only companies with net worth below $5 million qualify. That would rise to $7 million.
- A shift in the burden of proof in tax cases. The taxpayer now must prove that the Internal Revenue Service was unreasonable in order to recover legal fees. The Senate bill would require the government to prove that its position was reasonable.
- Broadening of the meaning of the phrase "position of the United States" to include the agency's underlying action as well as its final litigating stance. This should help businesses recover fees in a wider range of cases.
- A requirement that fees won under the act come from funds already appropriated for the agency involved. The bill would also bar an agency from going to Congress for an increased appropriation to pay for fee awards.
- Extension of coverage to Social Security administrative proceedings and to cases brought by government contractors in boards of contract appeals.

Business groups would like more changes, especially one that would negate a recent appellate court ruling that U.S. Tax Court cases are not covered by the act.

"If we could bring IRS and the Tax Court clearly under the act, more business people would come forward," says the Chamber's Roth.

The reauthorization bill is sponsored by Sen. Pete Domenici (R-N.M.) and cosponsored by Sens. Dennis DeConcini (D-Ariz.) and Charles Grassley (R-Iowa).

"Our notion was to invigorate the American spirit of fighting for individual rights," says Domenici. □

Can the Act Help You?

How can you tell if the Equal Access to Justice Act would work for you?

Washington lawyer David Stewart has drawn up a checklist for small businesses to use in determining if they could recover legal fees after winning a court battle with the government.

The following is adapted from his booklet, "The Equal Access to Justice Act: An Attorney's Handbook."

First, the plaintiff must be an individual with a net worth of less than $1 million or a business with a net worth of less than $5 million and fewer than 500 employes. Agricultural cooperatives and nonprofit organizations may sue under the act no matter what their size.

Second, the plaintiff must have prevailed against the government, through a judgment or settlement, in a substantial portion of a suit.

And third, the government's position in the dispute must not have been "substantially justified."

A claim will be helped if the plaintiff successfully moved for summary judgment or dismissal, or if the government voluntarily dismissed its claims or had previously lost similar claims against others.

A claim will be weakened if the government settled promptly after learning that its position was unjustified or if there was substantial conflicting evidence on the merits of the claim.

Some procedural tips: An application for fees under the act must be filed within 30 days of final disposition of the case, and it must include a net worth statement as well as a detailed breakdown of the legal fees for which compensation is sought.

Stewart notes that legal fees may also be recovered under a special set of circumstances. If the law involved in the original case provides for payment of legal fees by private parties that have lost—in age discrimination suits, for example—then recovery can be obtained to the same extent from the federal government.

The Small Business Administration's advocacy office stands ready—in Washington and in 10 regional offices—to help business people interested in using the law.

"Until this law came along, if a small business stood up and fought government, it was a pyrrhic victory. Because of the legal fees, even if you won, you lost," says the SBA's Sam Giordano. "We want to help businesses use the act and make the government think twice before they bring an enforcement action."

Says Stewart: "It's a very tough battle."

But only if businesses make use of the law will its goal be reached, he says—the goal of "a government so evenhanded in its actions" that the law will no longer have to be used.

Finding Room For The Intrapreneur

Innovation and corporate culture often collide. Some firms are proving the two can coincide.

By Sharon Nelton



PHOTO: ERIC MENCHER

ENTREPRENEURS are individualists, and they do not fit well in the traditional corporation. But more and more people concerned about the health of U.S. business—from academics and consultants to company chiefs—are warning that corporations must make room within their walls for entrepreneurs if the companies are to retain their vitality and even survive.

Internal entrepreneurship is seen as a means to stimulate innovation in products, services and techniques; increase productivity; and help companies hold on to some of their best and brightest employes—objectives all geared to making U.S. business more competitive on a world scale.

"A scarcity of innovation is the surest path to slackened competition, to emphasis on maintenance of effort and, finally, to inertia," Robert T. Grohman, president and chief executive officer of Levi Strauss & Company, told an international conference of financial executives in Montreal recently.

Grohman used that forum to encourage other corporations to open their doors to in-house entrepreneurs, and he was in a good position to do so. After a profit slide at the beginning of the 1980s, his San Francisco-based company experienced a dramatic turnaround, credited in part to what one Levi's spokesman calls an "entrepreneurial mentality." That mentality has included persistent efforts to shape a corporate culture where innovators can thrive.

Entrepreneurial spirit, at Levi's and elsewhere, manifests itself in many ways—from simple incentives, like prizes awarded to employes for good ideas, to complex efforts, such as helping launch new businesses or even totally restructuring a corporation.

Figuring out how to embrace the entrepreneur is not easy for a corporation.

"Most corporations really don't want entrepreneurs, because they rip apart the warp and woof of the organization," says William Zucker, professor of creative management at the University of Pennsylvania's Wharton School. Another observer says that because innovators take risks, they are often branded as not being team players; if they fail, they are often fired.

If a corporation wants to be innovative, experts agree, it must learn how to manage entrepreneurs and develop new ways for them to work within the organization. Helping companies find those ways is a new breed of consultant. One is Gifford Pinchot III, grandson and namesake of a noted political figure of the early 1900s. In 1978 Pinchot, then owner of a small upstate New York ironworking business that made specialty items like fireplace equipment, attended the School for Entrepreneurs, a program at the Tarrytown Conference Center in Tarrytown, N.Y.

Robert L. Schwartz, the center's founder and a teacher at the school, suggested some areas in which money could be made in the future. "Creating an environment so people could behave more like entrepreneurs in a large company" was one, Pinchot recalls.

That seemed implausible to him, he says, and he took it as a challenge. "I went to work on it."

An early result of that work was a long memo to Schwartz in which Pinchot began to develop some ideas about the in-house entrepreneur, calling the concept "intrapreneurship," a word he has since trademarked. (He had kept writing "intracorporate entrepreneurship," he explains. "After a while, you want to abbreviate it.") As Pinchot defines it, an intrapreneur is simply "someone who fills the entrepreneurial role inside a large organization."

Now an internationally acknowledged guru of intrapreneurship, Pinchot is president of Pinchot & Company, a New Haven, Conn., consulting firm devoted to helping companies like Tektronix, Westinghouse, Xerox and AT&T develop an atmosphere that will nurture intrapreneurs. In May, he will start a school for intrapreneurs at the Tarrytown center. About the same time, Harper & Row will publish his book, *Intrapreneuring: Why You Don't Have To Leave the Corporation To Become an Entrepreneur.*

ANOTHER SCHOOL for intrapreneurs is being put together by the ForeSight Institute, a joint venture of the Naisbitt Group in Washington (headed by John Naisbitt, author of the best-selling *Megatrends*) and the ForeSight Group, a Stockholm consulting firm. Some of the institute's ideas are borrowed from Pinchot, who has taught at a ForeSight Group school for intrapreneurs begun in Sweden four years ago.

Under the ForeSight plan, students participate in a six-month training period, spent partly in the classroom and partly in their home corporations. The students, who usually come to the school armed with an idea for a new product or service, develop a business plan, learn how to use resources of the corporation and obtain their first customer.

Consultant Gifford Pinchot III helps clients develop an atmosphere for nurturing entrepreneurs who can work within the corporate walls.

PHOTO: NANCY BUNDT



Control Data's George Troy (left) and Robert Wheeler are officers in a subsidiary that emphasizes entrepreneurship.



PHOTO: WAYNE SORCE

David Prin, human resources services marketing manager for Control Data Business Advisors, makes a sales call on AT&T's James Reese (left).

ForeSight also runs a parallel program aimed at preparing a company to accept and support the intrapreneurs it has helped create.

During training, a student's company provides him or her with a small project budget—$10,000, for example. If the project turns out to be viable, the company can decide if it wants to invest in the idea further.

Using such methods, the Stockholm team has helped several Swedish companies launch ventures. In one instance, a salesman for a manufacturer of prefabricated concrete stairways created a new product area for his firm by developing a precast concrete elevator shaft and getting customers for it. And a draftsman for a steel mill started an eel farm in a concrete basin once used by the company in processing steel.

Coming up with new ideas is not the intrapreneur's most important role, however. As Pinchot observes: "The problem we are having in the United States is not an invention crisis; it's a crisis of implementation." In his view, the innovator has to be tough enough to push an idea through to the marketplace. "So what you find," he says, "is that innovation is done by entrepreneurs."

Levi's Grohman, who uses the words "innovator" and "entrepreneur" interchangeably, agrees that they have the toughness. He says that they "are people who hold tenaciously to new ideas—people who won't rest until these ideas are realized. They . . . do what they think the Lord would do if He knew the facts of the case."

With or without the help of consultants, companies across the country are stepping up efforts to encourage internal entrepreneurship.

In 1982, Levi's set aside $3 million to fund new product ideas, asking for simple, two-page marketing plans and offering budgets of up to $500,000 for the best ideas.

Six projects were funded, and three have resulted in successful new product lines: flannel-lined Winter Jeans, Levi's Maternity Wear and Two-Horse Brand Jeans, dressier jeans with a roomier fit for the mature man.

Levi's will not disclose sales figures, but a spokesman says the Two-Horse Brand Jeans have been the "single most profitable product" in the menswear division. The company was so impressed with the results that it awarded nearly $4 million for seven new projects in 1983 and is allocating a like amount for product innovation this year.

MINNEAPOLIS-BASED Control Data Corporation has helped employes start almost 80 businesses, among them two-year-old Global Technology Corporation of Silver Spring, Md. Gerald T. Charles, a Control Data employe who had just earned an MBA, was searching around the company for a new assignment when the corporation's venture capital people asked him if he would be interested in starting a business. They had something in mind: "courseware"—computer software that is used in training an individual in a given field or skill.

Charles is now president and majority stockholder of Global Technology, partially financed by Control Data. Except for one member appointed by Control Data, he selected the board of directors. Global Technology's customers include the federal government and Control Data itself. Charles will not reveal revenues, but he says second-year revenues were twice the first-year figure. The firm has seven employes.

Global Technology is an entirely separate company from which Control

Data stands to profit by virtue of its investment. But Control Data is also pioneering another entrepreneurial approach: using existing staff to establish additional wholly owned businesses or profit centers that sell services back to the parent company as well as to the external market.

In 1979, for example, Control Data saw a market in providing management assistance to small businesses. Starting with a nucleus of senior employes, it created a subsidiary, Control Data Business Advisors, headed by George F. Troy. A decision was made to keep overhead down, Troy says, by using part-time people—some from the parent company, others from universities or consulting firms. The talent pool now numbers 1,000.

But in perhaps the most unusual move, Control Data last fall shifted 150 corporate staff employes to the subsidiary, which now consists of three companies providing small business, human resource development, and marketing and planning services. In the human resource area, for example, programs developed for Control Data—such as an employe attitude survey or a job analysis system—are scaled down for smaller firms.

There was apprehension among employes who were in staff functions and suddenly found themselves in line operations with profit-and-loss responsibility, Troy acknowledges. But now that they have had to be competitive and have seen they can succeed, he says, they have gained more confidence: "It is beginning to be a very positive experience."

The creation of Business Advisors, he adds, was consistent with Control Data's belief that setting up smaller entrepreneurial units results in greater efficiency and productivity.

Gould, Inc., in Rolling Meadows, Ill., recently announced a program whereby employes are invited to make business proposals to the company.

"If it is not in our mainstream of business but is a good business idea, we will lend financial support, technical support and marketing support," says Gould Chairman William T. Ylvisaker. Three proposals are now under consideration.

Under the program, the entrepreneur would be majority owner of the new business, and Gould would own 20 percent or less. "We might buy out the business after five to eight years at a fair-market price," says Ylvisaker. If a new venture fails but the entrepreneur was considered a good employe, he will be taken back into the corporation.

In fact, Ylvisaker sees tolerance for failure as a requisite for entrepreneurship, because not all new projects a company starts are going to succeed.

"You can't blame that on an individual," he says. "You put him on another project and get him going again."

Last year, Gould underwent an organizational change aimed, Ylvisaker says, at fostering entrepreneurship by transferring "more decision-making from the corporate level to the operational level." Under a decentralization plan designed to help the corporation further transform itself into a major electronics company, Gould's management team was restructured into four business sections. Each is headed by an executive vice president, consists of several companies and has its own operating board.

PHOTO: GARY KIEFFER



Joining forces to train intrapreneurs are *Megatrends* author John Naisbitt (left) and Swedish consultant Gustaf Delin, appearing here on the U.S. Chamber's BizNet.

DECENTRALIZATION HAS also been used by Allstate Insurance Companies, of Northbrook, Ill., as a revitalizing tool. President Richard J. Haayen, who describes the firm as "50 years old and a victim of middle-age spread," says an entire middle-management tier has been eliminated, so that 28 field offices report directly to corporate headquarters instead of to regional offices.

Haayen notes that it takes "forever" to get a new insurance product on the market, because the industry is so heavily regulated and laws often have to be changed before the product can be offered.

But, he says, an insurance firm can develop new marketing techniques or introduce new product features with less difficulty. In one result of decentralization at Allstate, employes have devised more competitive pricing systems in some states.

Decentralization, Haayen says, puts more authority in the hands of local employes and enables them to try new things without too much interference. He adds that decentralization reflects the desires of today's employes, who want to make some of the decisions that affect their jobs.

The variety of ways in which managements are stimulating entrepreneurship points to a central question: What motivates an entrepreneur—inside or outside a corporation? What reward does an entrepreneur really want? Almost all the experts agree on one thing: Personal monetary gain is not the answer.

What counts, according to Gustaf Delin, a founder of the ForeSight Group, is that the entrepreneur have the freedom to implement his project without interference from someone who does not understand it. The entrepreneur wants to show that his idea works.

Gifford Pinchot urges business to create a "career path" for entrepreneurs. In addition to a desire for autonomy, he says, entrepreneurs want to receive promotions and gain the access to corporate funds that a promotion provides.

But he acknowledges that promotion is a difficult issue because entrepreneurs are "good doers but not good delegators. They can manage a startup, but managing a mature business doesn't appeal to them."

He would agree with Levi's Grohman, who declared in his speech to the financial executives that "the appropriate reward for innovators is money for further projects."

Grohman explained that "entrepreneurs need budgets to pursue their innovations, and then new budgets to pursue further innovations."

He suggested that corporations imitate venture capitalists, possibly by giving internal entrepreneurs a specified percentage of the gains from their successes.

For example, if the return on a project is $1 million, the entrepreneur might receive 10 percent—$10,000 in cash and $90,000 in capital funds for another project.

"Funds for more innovation bind good researchers and encourage them to stay," he said, "because leaving would mean relinquishing control of accumulated capital, the resource for pursuing more innovation."

Besides, he added, "it is sound management because it puts an increasing share of the company's budget in the hands of proven winners." □



PHOTO: ROBERT RAYNE—FOLIO

Will the research you are thinking of investing in yield goods that sell? This chemical study in a sterile environment is being done with the aid of a computer.

High Tech R&D: Risks and Rewards For Investors

How to tell a solid tax shelter from a sham or an unsound speculation.

By Thomas M. Apke

IN THE 1967 film "The Graduate," Dustin Hoffman receives this advice: "Plastics." If the movie were remade today, the tip whispered in Hoffman's ear at his graduation party might be: "High tech R&D."

Investing in high technology research and development can be a smart move. In most cases, you can deduct virtually all of your investment in the first year. Royalties you receive after a product is on the market are often eligible for long-term capital gains tax treatment—another big tax break. And the royalties can provide a sizable return on your investment.

The trouble is, many R&D projects are shams: The company doing the research has no intention of ever succeeding. You need to scrutinize the entire R&D package, not just its tax shelter benefits, to get a good idea of the technology's potential for being developed and sold. And you need to be able to recognize whether the Internal Revenue Service is likely to disallow the tax benefits on the ground that the tax shelter is abusive or a sham.

(The number of tax shelter cases audited by IRS rose from 174,000 in September, 1980, to 325,000 in October, 1983. IRS recently announced that in its attack on abusive tax shelters it will consider the past activity of the promoter; the type of shelter involved; the size of the promotion and of the tax deduction or credit claimed; the regional or national impact; and any other relevant factors, such as whether any false or fraudulent statements were made.)

HIGH TECHNOLOGY companies seek investors to fund new products or processes. Typically, they contract with newly created limited partnerships. The company performs the research; all rights to the technology created belong to the partnership.

Such partnerships must include a general partner—usually a subsidiary of the firm doing the research or an independent third party—and "limited partner" investors. The general partner is liable for all debts of the partnership and the limited partners for just the amounts they have invested.

The partnerships usually are structured as private transactions under securities laws, to avoid the high cost and delays of publicly registered offerings.

When the company finishes its research, it generally has the option of licensing the technology for a short time to test it. The product is usually licensed for 13 or 14 months, long enough to qualify for long-term capital gains treatment. If the R&D is successful, the company has the right to purchase the technology from the partnership. In return, the partners get a fixed sum or royalties taxable at the long-term capital gains rates.

Given this basic understanding, how do you know which investments are likely to be left alone by IRS and to survive long enough to be worth the risk? You should consult your attorney and certified public accountant. But you also can—and should—ask a number of important questions:

- How much competition will the new product face? How marketable is

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THOMAS M. APKE *is an attorney specializing in corporate, real estate and tax law with an emphasis on research and development tax shelters. He is also an associate professor at California State University, Fullerton.*

the product, and what is the projected cost of sales?

Answers to these and other questions should be found in the R&D offering, and the assumptions behind the forecasts should be disclosed. Keep in mind that projections of sales usually are based on optimistic assumptions. Also consider whether the technology will become obsolete too quickly. Is there an opportunity to gain a market share rapidly to minimize this risk?

● What is the research company's track record?

Look at the background and experience of those who will actually do the work. If an organization has little or no experience in the type of R&D to be done, that raises the risk that the technology will not succeed. Ask about the facilities as well as the people. Does the company have enough money not only to perform the research but also to exploit the finished product? Ideally, the company should be a well-run technology firm looking for money to develop a new product that will be only a part of its overall business.



PHOTO: BRAD BOWER—PICTURE GROUP

Before you invest in glamorous projects, take a hard look at the company's track record and business plan. This researcher is testing circuits for robots.

● Has most of the research been done?

The earlier you invest in the project, the greater your risk. Beware of a project in which the inventor is just beginning the research and is far from the development stage. The risk is lessened if a similar technology already exists or the project is an expansion of a product line rather than a new concept.

● Does the project have a rational business plan and a realistic budget?

A business plan should outline what will be done at each stage of the R&D, who will do it, how much it will cost and how long it will take. (If the project takes more than a year, risk of obsolescence increases.) Projected costs should be itemized. Unless the funds are used for purposes defined under Section 174 of the Internal Revenue Code, IRS may disallow the deduction.

Expenditures for which IRS allows a deduction include those made to improve an existing product and to develop a process, product, formula, invention or pilot model. Expenditures that won't qualify for the deduction include those for ordinary testing or inspection of products or materials, efficiency surveys, management studies, consumer surveys, advertising, promotion and acquisition or improvement of land or property that is depreciable.

If the project offering indicates that several R&D projects are coordinated in one overall project, the risk is heightened. It may be better to have separate R&D for each project.

● Who will market and manufacture the product?

If the research company itself plans to exploit the product, consider whether it is experienced enough to do so. If the firm is not going to do it, find out what provisions have been made to have the marketing done elsewhere. If there are none, the risk that you will not realize a return on your investment is extremely high. Analyze the firm's financial statement and timetable: The product should be ready for sale within 18 months after the research and development is done.

● Should you sign a note payable to the company in addition to investing cash?

Leveraging, as this process is known, can provide an extremely attractive tax shelter. For example, if you invest $10,000 in cash and sign a $20,000 note payable to the research company in five years, under the tax laws you can deduct almost $30,000 in the first year. However, to be allowed to take this write-off, you have to be "at risk"—that is, truly obligated to pay the additional sum. IRS is trying to weed out shams designed to allow investors to qualify for the extra deduction. As a practical matter, the higher the promised write-off and the further off the due date for payment of the note, the more likely IRS will be to challenge the deduction.

● What is the promised return to the investor when the rights to the product are sold?

Seek projects with at least a fourfold cash return on your investment. Once you have sold the rights to the technology to the company that invented it, you should be given royalties ranging from 2 percent to 7 percent of sales. Many R&D firms will pay even more until you have recovered up to twice your initial investment. Do not accept a cap on the total amount you will be allowed to receive. You took a big risk, and you should get a high return for as long as the product is commercially viable.

● Will you have to chip in additional funds before the project is finished?

There is always a risk that the initial budget will be inadequate and you will be forced to contribute more money to protect your investment. But a good business plan and a realistic budget will lessen the risk. You should also study the terms and conditions of your obligation under the limited partnership agreement.

● Who will be the general partner?

A subsidiary of the company doing the research often is the general partner, creating a potential conflict of interest. The limited partners' interests may be at odds with those of the general partner. The company doing the research may want to pay lower royalties to the limited partners when the product is sold, but the limited partners will be seeking the highest return on their investment.

If a subsidiary is the general partner, you should question whether terms and promised benefits are fair and in your best interests. It may be better to have an independent, experienced management company act as the general partner.

● Is the limited partnership properly structured?

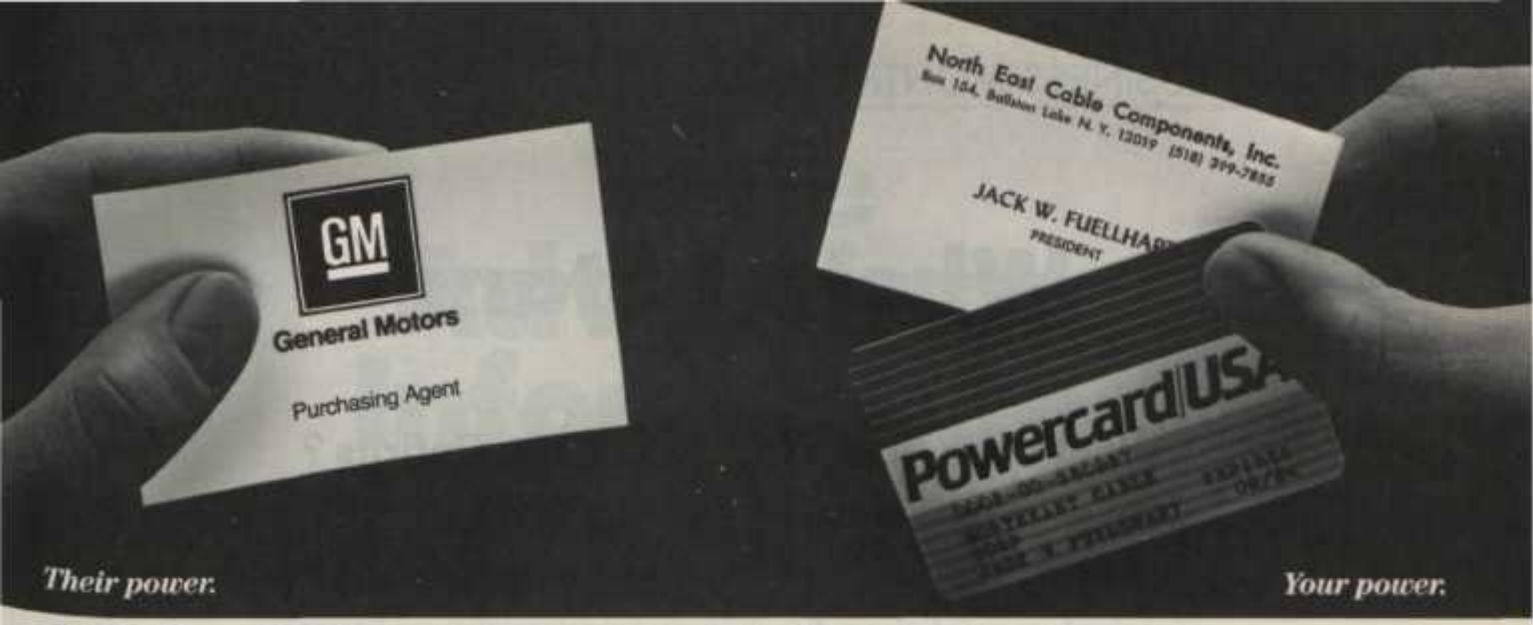
If not, many and perhaps all of the tax benefits can be lost. Expert legal advice should be obtained on this question.

● Does the R&D package comply with federal and state securities laws?

Certain disclosures must be made in the offering materials, and certain other requirements met, for the offering to qualify as a private transaction under securities laws. This is a complex area; seek competent legal advice.

Research and development is potentially a great investment for you—if you do your homework. □

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Where I Stand

What's the Best Way To Cut the Deficits?

Uncertainty surrounds federal deficits, but one thing is certain: At their present record level, they win no popularity contests. True, there is disagreement about specific effects. Economists now reach no consensus, for example, on whether deficits per se necessarily raise interest rates. And inflation's recent slowdown as deficit spending accelerated punctures the premise—once a widespread article of faith—that deficits inevitably cause prices to rise. But there is general agreement that, in the long run, deficits gravely harm the economy by crowding out needed investment. How to cut them?

1. Raise Taxes?

The deficit, less than $60 billion in fiscal 1981, the year in which Ronald Reagan took office, topped $195 billion in 1983 and may drop only marginally this year.

Some people say the way to bring the budget into balance is simple: Increase taxes.

Others point to the Tax Equity and Fiscal Responsibility Act of 1982, which, in "closing loopholes," offset much of the tax relief granted business by landmark Reagan legislation in 1981.

Following passage of TEFRA the deficit soared.

Should taxes be raised?

2. Cut Spending?

In 1940 the national debt was $43 billion. Today, saddling the government with huge interest costs, it is over $1.3 trillion.

The increase reflects almost continuous deficit spending and persistent rises in outlays. The Reagan administration has won program cuts, but federal spending is a bigger percentage of gross national product now than in the Carter years.

Some say spending can be reduced no further. Others, citing inflation-linked entitlement programs, contend it is still excessive.

Cut deficits with spending cuts?

3. Do Both?

Some people urge a two-pronged approach to ending deficits. They say special interests would block passage of enough spending cuts to do the job, so that along with cuts there must be tax increases.

Others argue that tax hikes are unacceptable. They say high taxes have been shown to be harmful to the economy—and therefore to federal budgets, in the long run.

They add that taxes are far from low now—that Reagan-sponsored reductions have merely stabilized the tax burden at 1970s levels.

Cut spending *and* raise taxes?

You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Phone Fees, Vetoes, Government Loans

The nays had it once and the ayes twice in responses to the Where I Stand questions asked in December: Should businesses have to subsidize others' phone service? Should a President have power to veto line items in spending bills? Should firmer controls be imposed on the amount of federal lending?

Almost 2,000 readers took part in the poll. Results will go to appropriate government decision makers.

Question No. 1 involved proposed residential and business phone user fees and legislation to impose them on businesses alone. (Firms with just one line would be exempt. The fees would replace payments local phone companies formerly received from American Telephone and Telegraph's long distance operation.) The vote: 85 percent no, 8 percent yes, 7 percent undecided.

The second question focused on a move for a constitutional amendment to allow a President to veto part of a bill—ending an all-or-nothing situation that helps many pet spending projects get through Congress. The vote: 94.5 percent yes, 4 percent no, 1.5 percent undecided.

Question No. 3, involving proposals to include federal lending in the budget process and thereby give a truer picture of deficits, drew a vote of 93 percent yes, 2.2 percent no and 4.8 percent undecided.

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Employers Who Help With the Kids

Providing child-care benefits can benefit the company, too.

By Carol Dilks

YOUNG CHILDREN are making their way into the workplace—not in the flesh, but as an issue. There are now more households with two working parents than ever, and businesses are beginning to take their first toddling steps to meet such workers' child-care needs.

Though the number of companies providing substantial assistance is still small, it is growing rapidly—from around 100 in 1978 to nearly 600 in 1983, according to the Health and Human Services Department. And employers are seeing some pretty clear benefits for themselves.

One study found that many employed parents miss occasional days at work, arrive late or leave early because of inability to arrange child care or because existing arrangements fall through. Others are anxious about the reliability of their present care. An anxious parent makes an unproductive worker.

By helping employes find quality day-care or after-school programs, companies report they can reduce absenteeism while making themselves more attractive to present and potential workers.

Miriam Kertzman, program director of a child-care center operated by Stride-Rite, a Boston manufacturer of children's shoes, says: "We found a great change in punctuality and a tremendous change in morale. Companies in this area have a tough time competing for good workers, but we get our share easily."

Day-care benefits help a business hold on to skilled staff, too. In hospitals, which have a high proportion of female employes, employer-sponsored centers have grown much more quickly than the general pace. The Fox Chase Medical Center in Philadelphia started its center two years ago, sharing the cost of care with parents.

Personnel Director Mary Dixon notes that Fox Chase saw "a reservoir of well-trained people who need to be encouraged to return to work once they've had children." She reports that not only are more of them coming back, but maternity leaves are generally much shorter.

Such programs entail expenses for the employer. But, as Dana Friedman, senior research fellow at the Work and Family Information Center in New York, points out, everything a firm does to support child care is either tax-deductible or eligible for a tax credit.

Most services are considered necessary business expenses. Others may be covered by the Economic Recovery Tax Act of 1981, which allows child-care expenses to be paid separately from the worker's paycheck, using funds that are not subject to withholding of income, Social Security or federal unemployment taxes. The business owner therefore is offering benefits that do not increase payroll taxes.

BUSINESSES HAVE taken several basic approaches to child care. At the head of the list is I&R—information and referral. About 900 companies offer I&R to their employes, either directly or through specialized agencies. An

CAROL DILKS *is a free-lance writer based in Philadelphia.*

PHOTOS: GARY KIEFFER





Stride-Rite President Arnold Hiatt (left) enjoys a few moments with children at a company-supported day-care center in Cambridge, Mass. Below: It is time for some special attention from a staff member.

White House Goal: Involving CEOs

Chief executives from major corporations in nearly 20 cities have already attended or will soon be invited to luncheon seminars organized by the White House. The purpose: to discuss what they and other business leaders can do to improve child care for employes.

Called "Employer Options To Support Working Families," the program was begun last year and will continue through early 1984.

"The major purpose of the seminars is to provide information which may change corporate attitudes toward child care," James K. Coyne, special assistant to the President for private sector initiatives, recently told a Senate committee.

In addition to on-site day-care centers, "many other alternatives have been developed to allow employers greater flexibility in their support of quality child care," he said. Coyne's office wants to make CEOs aware of options like flextime, referral services and charitable contributions.

"We also want employers to realize the benefits to the company derived from recognition of working parent employes," Coyne said, citing increased productivity, enhanced company loyalty and lower absenteeism.

The office gets a prominent CEO in each target community to host the luncheon. The CEO agrees to invite 50 colleagues from other local firms, and his company picks up the tab. Among the host companies have been Seafirst Corporation in Seattle, the Tandy Corporation in Fort Worth and CIGNA in Hartford.

A luncheon hosted by First Interstate Bank in Portland, Ore., last summer resulted in quick action. The local child-care coordinating council needed funds to computerize its information and referral service. Within a month, it had over $30,000 in corporate contributions.

An outline of material covered in the seminars can be obtained from: Office of Private Sector Initiatives, Room 134, White House, Washington, D.C. 20500. Ask for the executive summary on child care.

I&R agency researches local facilities and publishes its findings regularly for the company's staff, supplying details about location, age groups, hours and number of slots available.

Boston's Child Care Resource Center is an I&R agency that assists 500 to 600 parents monthly, three quarters of them working parents. The director, Ethel McConaghy, estimates that over 3,000 day-care providers in the area are included in the center's data base.

Among its business clients is the New England Life Insurance Company. Out of 3,500 employes, about 200 have made use of the center.

After I&R, the most popular form of day-care assistance is the voucher system: A company pays care providers directly to secure a reduced rate for its employes. About 500 businesses offer vouchers to their workers, according to one employe benefits specialist. Several follow a standard format worked out with Kinder-Care Learning Centers, a child-care chain based in Montgomery, Ala., which has almost 800 facilities coast to coast. Kinder-Care, in what it calls its "Kindustry" program, gives a 10 percent discount to industry participants if the employer provides a matching amount, creating a 20 percent price reduction for the employe.

There are other options. Campbell Soup Company President Gordon McGovern wanted an on-site center in Camden, N.J., but did not want to take on the task of creating it. Kinder-Care cooperated with Campbell in renovating a building, then stocked it with Kinder-Care staff and equipment. The center works under a management contract, with parents paying tuition established by Campbell. Campbell picks up about half of the cost for each child, so that employes contribute as little as $25 per week.

A SHINING EXAMPLE of corporate child-care programs is that of Stride-Rite. Its program was started in 1971 as the result of a request for funds for a community preschool center.

Stride-Rite President Arnold Hiatt reasoned that a corporate contribution to such a center might as well benefit the company's employes, too. So half the children cared for by the facility must belong to Stride-Rite employes. The Boston center worked so well that in January, 1983, the company opened another, in Cambridge, Mass.

Both centers derive their income in small part from the school lunch program and from the state department of social services' payments for many children from the community. Other funds come from Stride-Rite and tuition paid by parents. Stride-Rite's people pay a per-child cost of 10 percent of any weekly salary up to $250 and 15 percent beyond that. The annual tab for Stride-Rite, including both its subsidies to employes and its continuing contributions to the center: $150,000.

Arnold Hiatt sees the programs not only as an effective company benefit but also as a valuable contribution to the community. "Half the children are from the community, from very low income levels," he says. "They need a lot of help—medical, psychological and educational—and they get it here."

Salary reduction is the method that, according to the Work and Family Information Center's Dana Friedman, is "sweeping the country" among small professional firms, such as law offices and architects. Employes' salaries are decreased by the amount of their day-care expenses (as long as this does not exceed the income of a lower-earning spouse). The boss then pays the day-care provider.

THE BUSINESS saves a small amount on taxes, since it reduces its payroll expenditure. But it is the employe who really gains, because taxable income is reduced. Friedman predicts the Internal Revenue Service will eventually limit this system, perhaps by imposing a ceiling on the percentage of salary that can be excluded from the paycheck. In the meantime, some parents are shaving their taxes by thousands of dollars per year.

To determine which model would work best for a company, Margaret Rappaport, executive director of Frontrunners, a Philadelphia consulting service, recommends that the company start with a needs assessment. It should appoint a task force to study facilities in the area.

Then it must map a strategy: Does it want a single effort or a consortium, a voucher or an I&R? The company should ask child-care experts and employe representatives for help.

If businesses are detecting a mere whisper of interest in day care today, they may face a roar a decade from now. Census projections suggest that there will be more than 10 million preschoolers with mothers in the work force by 1990, up from 8.4 million in 1982. Every one of those women will rely on some form of day care.

The need is not felt only by women, however. "In some companies, those who have done the most to advance the cause are men, who can carry the banner more openly," says Dana Friedman. She adds: "I call it the 'Kramerization' of the work force," alluding to the film "Kramer vs. Kramer," in which a father takes on the role of single parent.

Child-care needs also cut across lines of station. Managers, as well as the rank and file, feel the pinch. "Day care used to be a blue-collar problem," Friedman asserts, "but over time, corporate response to it will increase because the middle class needs it." □

To order reprints of this article, see page 57.

Easing the Impact Of Auto Damage

A computerized appraisal system spreads benefits to drivers, insurers and garages.

ONE OF LIFE'S hassles is becoming a thing of the past for most insurance policyholders. Thanks to a new computerized system called Audatex, countless people with damaged autos no longer have to run around town getting three garage estimates, quibble over the results with an insurance agent and then wait, sometimes weeks, for a check.

ADP Collision Estimating Services, of Hayward, Calif., has for three years been marketing to insurance companies a computerized appraising system that is streamlining the auto insurance industry, standardizing repair costs, aiding manufacturers in designing vehicles and giving government agencies useful data on accidents.

ADP/CES' system is used by 22 of the nation's largest auto insurance companies, penetrating 70 percent of the market. It is expected to spread to other types of insurance, improving efficiency as it goes.

"They've done great things with Audatex," says James Eddinger, a Fairfax, Va., claims manager with one large insurance company, National Service Automobile Association. "They have increased the capacity of the insurance industry to move cars."

The company's Fairfax drive-in appraisal facility operated at a cost of $71,032 during the 12 months before the company bought the ADP/CES system. The cost was $92,102 in the next 12 months. But, with more accurate damage assessments, the company saved $181,783 in insurance payments.

"We have taken the clerical, error-prone process out of the calculation," says Garen Staglin, president of ADP/CES, who brought the system, created in Switzerland, to the United States. "But," he adds, "we haven't taken out judgment."

Under the old procedure, an estimator for an insurance company would walk around the damaged vehicle with a clipboard, describing on a report form the damage he saw. Then he would go through a hefty "crash manual," looking up all the parts that needed replacement, estimating their cost and figuring the amount required for labor.

The procedure took time and, insiders say, invited errors. Enter Audatex. Insurance appraisers still walk around the vehicle, but they no longer make impressionistic notes to themselves on a blank form. Phase one of the Audatex system provides them with an "exploded" diagram (a line drawing) of every domestic or foreign car model produced since 1970.

If the car is, say, a 1981 Honda four-door Civic, the appraiser pulls that particular diagram from his filing cabinet and simply checks off the problems he finds while surveying the damage. Audatex has cut the time required for estimating damage from 30 or 40 minutes to 10 or 15.

The appraiser gives the completed form to a computer terminal operator, who enters the data into the system. Within a few minutes, the ADP/CES home data base, containing 40 million pieces of information about cars and trucks, produces a printout describing all aspects of the repair job. Also, it generates a figure that the insurance agency can use to issue a check on the spot.

Usually, the customer is given not just a check but a computer printout depicting the damage with a precision that speeds repair in the garage. Audatex has improved the working climate between insurers and repair shops, those familiar with the system say. Under the system, the insurer, rather than the customer, negotiates with the repair shop in any dispute over an estimate.

ADP/CES' data base is constantly updated with price data on parts. In addition, the 18 million damaged cars that pass through the system in a year provide data that the company collates and synthesizes into usable statistics.

DATA GENERATED also help manufacturers understand problems in the design of particular vehicles. ADP/CES plans to develop portable Audatex machines that will permit appraisers in the field to tap into the company's computer for on-the-spot estimates.

The portable system will provide better service for insurance customers who do not have easy access to a drive-in estimating center or whose cars are too badly damaged to be driven.

"We have done a multiplicity of things here," says Staglin. "We have provided the benefits of information processing tools to the professionals of the insurance industry. We have improved the ability of these professionals to do their job. And we have provided a cost-saving service." □

—Henry Eason

PHOTO: DAVID WILSEY



Under Audatex, an appraiser (left) checks off damaged areas on a drawing of the car. An operator enters the data into a computer, which produces a printout describing needed repairs.

Garen Staglin (below right), who brought the system to America, says it eliminates errors but not judgment.



PHOTO: LORRAINE NORRIS

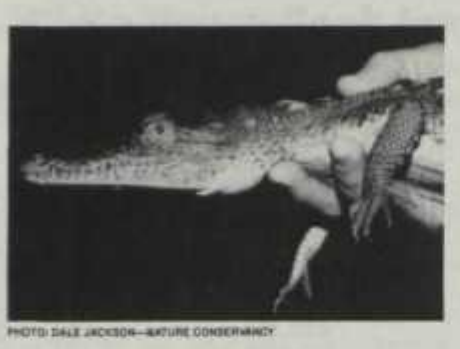


PHOTO: DALE JACKSON—NATURE CONSERVANCY

The Business Of Saving the Wild

The Nature Conservancy enlists corporate aid in preserving America's natural heritage.

GULF OIL Corporation donated a 339-acre property in Kentucky, home to a rare plant species. St. Regis Paper Company agreed to sell a 17,000-acre Florida wetlands tract for $3 million less than its fair market value. Amoco Oil Company made a $60,000 grant toward wetlands preservation in Illinois.

Big business and environmental conservation are, in many people's eyes, as unlikely a mixture as oil and water. But companies are changing this image with gifts to an organization called the Nature Conservancy. The gifts include cash, lands the companies own that offer habitats for rare and endangered plants and animals, and surplus property (called trade lands), that can later be resold, with the proceeds being used to acquire natural areas.

The Conservancy is distinctive, business maintains, in that it does not judge a corporation's line of work or past actions. As Bruce Smart, chairman and chief executive officer of the Continental Group, notes: "The Conservancy enlists corporate aid rather than denouncing corporate motives."

Just what is the Conservancy? A private, nonprofit group whose goals are, says President William Blair, Jr., simply "to preserve the unspoiled examples of this country's diverse flora and fauna" while keeping out of the political fray that attracts many other environmental organizations. "The Conservancy has no condemnation power, wants none and prides itself in doing its work in a businesslike and noncontroversial manner," Blair adds.

This attitude has paid off. In 32 years of operation, the Conservancy has protected more than 2 million unspoiled acres of wetlands, barrier islands, forests and prairies.

"Very little is left of truly natural lands," Blair says. "At a time when we're learning about the genetic resources of the land, the flora and fauna that are being used to find cancer cures, fuel industries and feed the earth are rapidly disappearing. Once we had half a million square miles of tall grass prairie; now there are just a few hundred acres."

Blair cites the value these lands have to the continued existence of business as a main reason why the corporate community has become so intimately involved with the Conservancy. Another factor, he says, is that "we are a lean organization where business can see year to year in black and white what we have accomplished. Business likes tangible results."

The Conservancy's operating techniques are carbon copies of those of most corporations.

The 450-person staff, parceled out among national headquarters and 30 state offices, is divided into two segments. The scientific division, equivalent to a company's research and development department, is composed of botanists, foresters and biologists, who are charged with "factually and unemotionally identifying truly significant natural lands," Blair says. Then there is the real estate section, run like a realty company and staffed with lawyers and finance, marketing and real estate experts whose task is to buy the land at market value or more often below; enter into long-term leases with industrial landowners; and obtain conservation easements, voluntary conservation agreements or outright donations from private owners.

Most of the Conservancy's operating funds come from its 185,000 members. It has more than 400 corporate members (they are called associates). Individual dues start at $10, basic corporate memberships at $1,000.

The organization also has a revolving fund from which state chapters can, on short notice, get loans to finance an acquisition. If a chapter does not repay a loan on time—generally within two years—it can incur an interest penalty of as much as 16 percent. At the end of 1983, the fund contained $34.2 million.

Union Camp Corporation, a major forest products company, was one of the first firms to take advantage of the Conservancy's unique structure by donating 49,000 acres of the Great Dismal Swamp on the North Carolina-Virginia border as a permanent wildlife refuge.

Alexander Calder, Jr., former board chairman and now chairman of Union Camp's executive committee, says he has always been impressed with the Conservancy's methods. "They are not just going out willy-nilly to acquire land to make a name for themselves," he says. "They choose their land carefully and purposefully."

Blair stresses the private sector's critical importance to the Conservancy's continued success. With the government focusing on an upgraded maintenance program for its national parks and preserves and dramatically decreasing its land purchases, the private sector must step in, Blair says. The accelerating rate of energy development, mining, road building, logging and farming of marginal lands "makes it necessary to save a reasonable representation of our important natural lands before it is too late," he says. □

—Mary-Margaret Wantuck

PHOTO: KRISTIN CALLAHAN



The Conservancy, says President William Blair, "prides itself in doing its work in a businesslike and noncontroversial manner."

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President's Plan Is "Doable," Regan Says

Downing deficits and interest rates.

PRESIDENT REAGAN'S 1984 fiscal strategy is designed to put federal deficits on a long-term downward path without major increases in broad individual and business taxes, according to Treasury Secretary Donald Regan.

Key to the President's "doable" plan, he says, is a combination of spending cuts coupled with what he describes as "modest tax proposals" to close loopholes.

That approach, he told NATION'S BUSINESS in an exclusive interview, would put downward pressure on interest rates by reassuring financial markets that are "concerned about the deficits, particularly as they see deficits producing high rates of interest."

The Secretary noted that the President's new fiscal plan calls for budget savings of more than $200 billion over the next five years, plus $75 billion in the same period in revenues from revisions to tax laws.

Areas that the administration identifies as providing loopholes in their present form include industrial development bonds, mortgage revenue bonds, employer-paid premiums for health insurance at certain levels and real estate tax shelters.

The savings and revenues envisioned in the current Reagan plan would cut $275 billion from federal deficits that could otherwise reach $900 billion over the next five years.

In addition to the impact of the specific tax recommendations and spending cuts, the Secretary said, overall revenues "will be increasing automatically" as the economy continues to grow.

Regan rejected the argument that the deficits must be brought down through sharp tax increases. Such increases, he said, could slow the recovery by diverting to the federal government capital funds needed for expansion of the economy.

"Currently, I think there is enough money in the savings pool for us to handle our deficits without crowding business out and without crowding consumer spending out," he said. "So, I would rather borrow this year."

PHOTO: GEORGE TAMES



Treasury Secretary Donald Regan says that the President's proposals for reducing deficits through spending cuts and "modest" tax hikes should reassure Wall Street.

Besides, he added, "it's going to be very difficult to get a major tax bill" through Congress in an election year.

Passage of the tax and spending measures are needed for financial markets to see "a path of deficits coming down to where, with any kind of decent growth in the economy, they are running around the $125 billion mark out there in '89," Regan said. "That is sufficient for the Congress to do in 1984."

Regan added that this year's cost-cutting fiscal policies would be a "down payment on additional cuts that should come in '85, '86, '87, as this recovery is prolonged."

He cautioned that proposals for a bipartisan commission to study the deficit problem and help build a political consensus for cost cutting in Congress should not result in a "hurried process with a report coming out in the middle of a presidential campaign."

The recently released Grace Commission report on government cost cutting—it identified potential budget savings with a present value of $424 billion over three years—should be studied closely, Regan said, to see which of the recommendations are "doable."

Regan urged that business men and women "make their voices heard" in Congress against the "strong, well-financed lobbyists for spending increases or for holding the line and not cutting back on certain areas."

The Secretary added that business people should not "join groups that are saying, 'Cut everybody else, but not my particular program.' "

Recent government reports indicate business plans to hike equipment purchases about 10 percent this year. "That's a very healthy sign," Regan said. He added that many companies with strong balance sheets will be able to pay cash for this surge in investment.

He acknowledged that Wall Street is concerned about three things: deficits, "a too restrictive money policy killing off the recovery," and the high value of the dollar. But, Regan said, Wall Streeters "know that if interest rates come down, these problems will be solved.

"Most of the people I've talked to on Wall Street," Regan added, "are more or less in concert" with the administration's approach to the economy.

AS FOR THE MONEY policies of the Federal Reserve System, Regan said he hopes statistics to be released later this month will show that changes in the money supply during 1983 were less extreme than first reported.

"I'm a little more relaxed about a scenario that says we are definitely going to have a good year in 1984," the Secretary said.

Regan said that he is no expert on politics, but he believes the outcome of November's election will hinge, at least domestically, "on the answer to the simple question: Are you better off or not? That's when a person has to determine if Reaganomics did work." □

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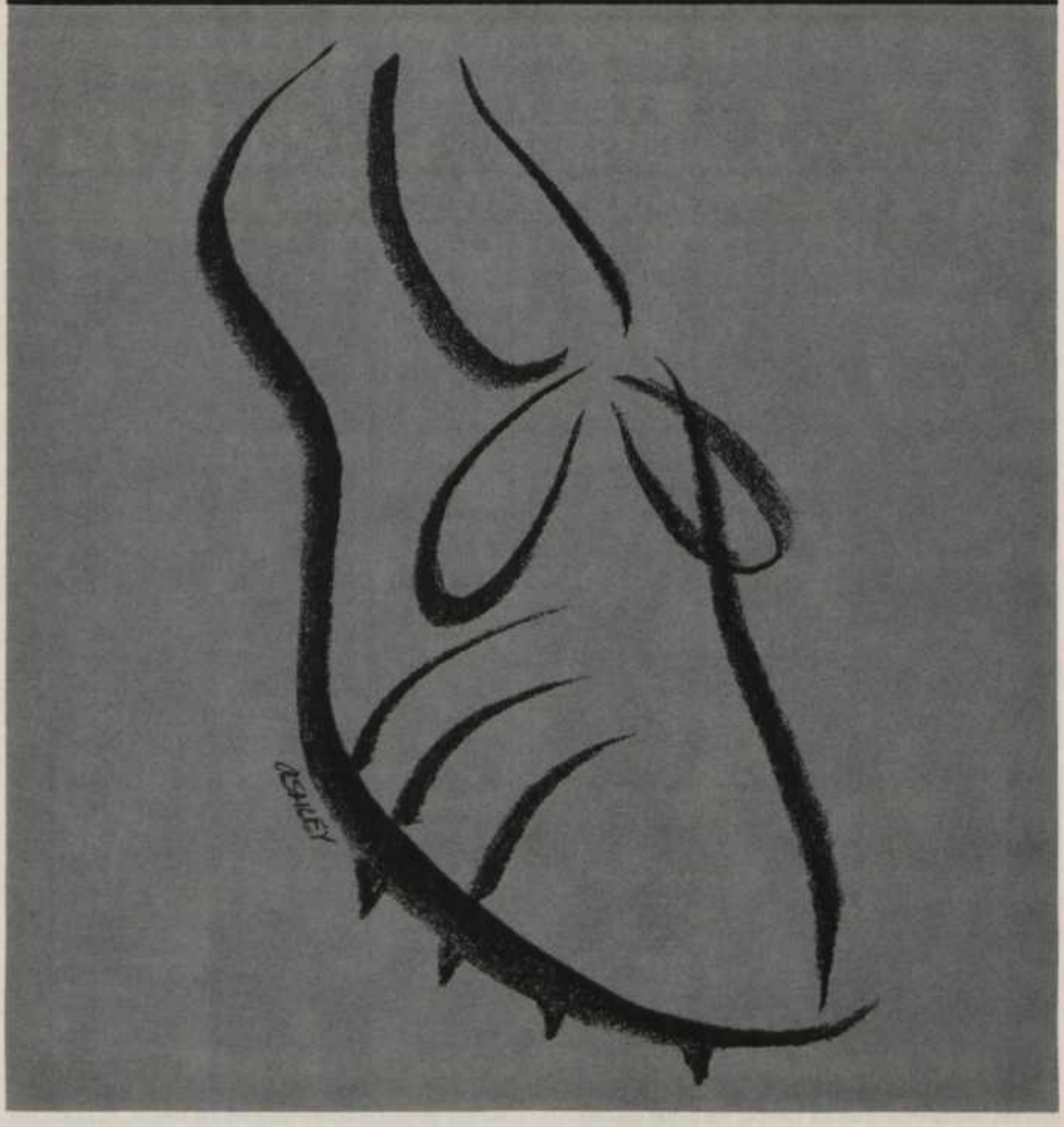
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WASH/E/B

Coping With Stress on the Job

Doing work you take pride in may help you live longer.

By Paul J. Rosch, M.D.

STRESS in the workplace has been called the No. 1 health problem in the United States. In addition to its effects on individuals, its costs to American industry are estimated at $75 billion to $100 billion annually in absenteeism, diminished productivity and health-related expenses.

We also know that stress plays a major role in heart attacks, hypertension, peptic ulcers and a host of other illnesses, from herpes to cancer.



PHOTO: DAVID VALDEZ

Some people see life as an endless series of challenges. It is an outlook that may pose a threat to their health.

Some sources of stress at work are so chronic and pervasive that you may accept them as a normal part of life. But your body may not acquiesce so readily. Despite an absence of outward signs of distress, a variety of harmful responses may be going on inside. Ultimately, they can lower your resistance to infection or malignancy, because of effects on the immune system or because of excessive release of chemicals and hormones that can damage your heart, stomach and other organs.

Fortunately, significant strides have been made in preventing and treating job stress. The first step is to identify the sources of stress that affect you. Some possibilities: job insecurity; lack of praise for good job performance; problems with co-workers or clients; lack of a clear job description; thwarted ambitions, or feeling that your talents are not being fully used.

While we usually associate stress with the harried, hurried middle-aged executive groping to get to the top, boring or tedious work can be equally hazardous to your health. Very often the problem is not the job itself but a mismatch between its requirements and your own goals, motivations and abilities. Job stress frequently occurs when you have a significant degree of psychological strain but have little decision-making power to influence outcomes.

Heart attacks are a major manifestation of stress. You are at greatest risk if you are a "Type A" coronary-prone individual—the hard-driving, aggressive, irritable, impatient, time-conscious person who is often frustrated by self-imposed unrealistic goals.

Type A individuals often perceive life as a series of challenges, and their bodies respond with an excessive or inappropriate release of adrenal hormones that can damage the heart.

Obviously, we cannot control some things in life—the death of a loved one, for example. Still, there are a number of ways to deal effectively with stress: removing or reducing controllable sources of stress at work; modifying behavior; using exercise as an outlet; and diminishing or blocking the harmful effects of stress by meditation or relaxation techniques.

Unfortunately, many individuals rely instead on alcohol, recreational drugs or tranquilizers to reduce stress, and these may pose other health problems.

One of the most significant recent advances has been the use of drugs known as "beta blockers," which appear to block the harmful effects of adrenalin-like hormones on the heart. ("Beta" refers to a type of receptor that receives messages from the brain—for example, to speed up the heart or to make it beat more forcefully.) In one landmark study, heart attack patients given Inderal, the original and most widely prescribed beta blocker, had a significantly lower death rate than patients not taking the drug. Similar effects have been observed for other beta blockers, such as Lopressor, Corgard and Blocadren.

Studies suggest that such drugs may also be useful in helping to change coronary-prone behavior. Type A people may actually become addicted to or dependent upon those little jolts of adrenalin to get them charged up. They may unconsciously seek ways to create that sensation by leaving things until the last minute or creating contests where none exist. By blunting the effects of adrenalin, beta blockers appear to reduce the tendency toward harmful behavior.

What is distressful for one individual may have no significance or even be pleasurable for another.

IN GENERAL, doctors recognize that lacking control of a situation is distressful and can make you sick. Doing something that gives you pride, especially if you enjoy it and it benefits others, seems to be associated with good health and longevity.

Armed with that information, sit back and see how that might apply to your life. It may not be feasible to find another job, but perhaps you can identify other ways to satisfy interests and use abilities that have been suppressed. Are there ways to achieve greater control over your life by avoiding stress at work? Are there ways you can minimize harmful responses to stress?

Do not waste your energy and emotions on frustrating circumstances that you cannot possibly hope to influence. Some good advice can be found in the familiar prayer offered by the theologian Reinhold Niebuhr:

"God, give us grace to accept with serenity the things that cannot be changed, courage to change the things which should be changed and wisdom to distinguish the one from the other."

Take that philosophy to work every day and you may be a lot healthier. □

PAUL J. ROSCH, M.D., *is president of the American Institute of Stress and clinical professor of medicine at New York Medical College.*

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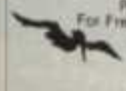
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PHOTO: MIKE SHELDON



The Mepps spinner has not only helped Todd Sheldon land 25-pound northern pikes like this, it has also made him a rich man.

Using a Magic Lure To Catch Customers

It is axiomatic that success usually involves being in the right place at the right time. But sometimes the right man has to move decisively to seize the moment. That is how a Wisconsin outdoorsman turned an obscure French fishing lure into the largest-selling fish catcher in the world.

Todd Sheldon of Antigo, Wis., was running a popular sports shop in the heart of Wisconsin's lake country after World War II when he discovered the remarkable efficacy of the Mepps spinner.

Invented by a Parisian, André Muelnart, the Mepps spinner was never more than a hobby for its developer, who worked until retirement as an engineer for the Peugeot company.

GIs in France after the war liked the little lure so much that they brought it back to the States, where it worked on fish as well as it did in Europe.

An avid fisherman, Sheldon had been given one of the lures but kept it in his tackle box until one trying day in 1951 on the wild Wolf River near his home. Weary of fruitless casting for trout, Sheldon tied on the spinner. Soon he had four big ones.

Sheldon caught so many fish so rapidly that he decided to sell the lure in his sports shop. He obtained a supply from an American friend and sold the first batch of 200 for $1.25 each.

News of the lures traveled so swiftly by word of mouth that Sheldon began ordering them directly from the small Mepps factory in Nice, France. Fishermen are a brotherhood quick to try a proven fish catcher, so the fame of the lure continued to spread far and fast. Soon Sheldon began wholesaling to jobbers for other retail outlets. In 1953 he ran his first national ad and his entire stock sold out by mail order within days.

Quick to recognize the spinner's huge potential, Sheldon sold his store, where he had operated the lure business in a tiny back room, to concentrate wholly on the spinner. First, with a partner, he obtained the North American franchise, quickly pushing annual U.S. sales to 500,000 lures.

Eventually he bought out his partner and, in 1972, became owner of Mepps itself. Current worldwide sales are 18 million units per year.

Spinners for distribution outside the United States are still made in the Nice facility; for U.S. distribution, parts are imported from France and assembled in Antigo, where Sheldons', Inc., has 150 employes.

Sheldon is a quiet man who tends to let his sales do his talking for him. But he likes to say that he and his family enjoy the best of all possible worlds by "selling sunshine."

When son Bill, a vice president, is asked the secret of the firm's success his answer is: heavy advertising. Fishing lures are highly competitive and the Mepps spinner inspired more than 100 imitations. None gained the lock on the market that the original achieved. Fishermen respond to the mystique of original, and Mepps advertisements have traded on that.

Bill Sheldon says the firm's ability to distribute is a key factor in its success. So are some canny marketing strategies.

One is a simple but highly effective ploy that any gardener awaiting spring would understand. And so do wintering anglers. Sheldons' turns out two annual publications stuffed with full-color pictures of fishermen, trophy fish, their testimonials and page after page of lures. In winter the small Antigo post office delivers as many as 15,000 orders a day for the brochures, which have all the mystery and enchantment of north-flying geese for outdoorsmen.

Another innovation was the introduction of plastic kits containing five or six spinners designed for different species of fish. But one real marketing coup was specialty kits featuring the names of various companies emblazoned on the lures' spoons. Included are such beverage companies as Coca-Cola and Miller beer and chains like True Value Hardware and Eddie Bauer, Inc., the outdoors outfitter.

The Sheldons continue to fish around the world—especially in Alaska, a state they often visit. And they use their spinners exclusively. Making some 2,000 different lures, they figure they can always come up with a Mepps to entice whatever fish they are seeking.

If you were wondering about the name, Mepps is an acronym for Manufacturier d'Engins de Précision Pour Pêche Sportive. Or in English, Manufacturer of Precision Equipment for Sport Fishing. Many anglers still call it "the French spinner."

Where's Growth? It's in the Bag

Little did Elizabeth Andrews and her husband, Ben Ellison, suspect that the birth of their daughter, Jesse, five years ago would propel them into business. They had led a laid-back life in Camden, Me. She had been a teacher. Ellison, a licensed captain, had been making his living on the sea, running small charters. They lived on their boat at first, but exchanged that way of life for a house when Jesse came along.

Jesse fussed unhappily when her parents tried to stuff her into a traditional snowsuit to protect her from Maine's cruel winters. And no sooner would

they succeed than it would be time for a diaper change.

So Andrews took to her sewing machine and stitched up what she now calls "a sleeping bag with legs." The bag kept the baby just as warm as a snowsuit did but gave her lots of room to move her arms about. A front zipper made diaper changes more convenient.

Andrews' invention provoked so much comment that she and Ellison realized they had something.

They applied for a patent and registered a trademark for the "Baby Bag." Says Andrews: "That was a real commitment; once we did it, we found ourselves getting more and more involved."

The initial plan was to sell the idea to another company, but the first two firms they approached encouraged them to develop the product themselves. In the winter of 1979, they made 35 bags and gave them to friends to test with their babies. The responses were so enthusiastic that, using their house as collateral, they got a $5,000 bank loan and started the Baby Bag Company.

Their first big break came in 1982, when outdoors outfitter Eddie Bauer, Inc., picked up the Baby Bag snowsuit for its catalog. It was a last-minute decision, and neither company was prepared for the demand. Eddie Bauer kept reordering until finally a company representative asked for every bag that Andrews could supply until the end of the season. Meanwhile, Andrews and Ellison were struggling to get orders delivered.

When another big outfitter, L.L. Bean, added the Baby Bag to its 1983 Christmas catalog, "we were much more in control," says Andrews, 34.

More than 15,000 Baby Bags (retail price: $32.50) were sold last year. "We have slightly more than doubled sales each year," Andrews notes. The garments are manufactured by a New Hampshire firm, Log House Designs, at a converted Odd Fellows Hall in North Fryeburg, Me.

The Baby Bag Company has added several new products to its line—a Baby Bag bootie; a "sailmaker's" swing that can be hung from a door jamb, a ceiling beam or a boat boom; and a cradle that looks like a Maine lobster trap turned upside down.

In the fall of 1982 the firm offered its own retail catalog, including not only Baby Bag products but also items from other companies.

It has achieved its growth with a staff of just four—Andrews, Ellison and two employes. But now Andrews and Ellison are seriously considering selling the retail activity, partly because Ellison, 37, is going to pull out of the Baby Bag Company.

He computerized the firm's retail operations and learned so much by doing it that he is going to become a computer consultant to other small businesses. Such consultants are hard to find in rural Maine, Andrews notes.

Besides, she adds, the rapid growth of the wholesale part of the business demands her full attention. "Alaska and the Northwest have really caught on, as well as New England and Minnesota," she says.

Even a bad experience with their first distributor hurt them only temporarily. He did not do any planning, Andrews says. "It was a disaster and he made a bad name for us, but luckily, we've recovered."

Now the firm has half a dozen distributors. Wholesale revenues were about $230,000 last year, and retail sales were $100,000.

Andrews admits she is surprised to find herself so successful in business. Hard work and good luck have helped, she says, but she primarily credits the product itself: "I have a lot of faith in it. It really works and people love it."



PHOTO: BRIAN VANDEMARK

With a friend's baby, Elizabeth Andrews demonstrates the versatility of the infant snowsuit that launched her firm.

Taking the Mystery Out of Computers

Gas cap. V-8 engine. Hardtop. These are terms you no doubt understand because you began absorbing the language of autos as a baby. By the time you reached 16, you knew a lot about cars, observes New York City entrepreneur Alan Freedman.

But consider a second list: CAD/CAM. Byte. Crosstalk. Digitize.

Does this list make you a bit edgy? The terms are associated with computers. Your children probably are soaking up terms like these the way you sponged up car talk. But if you are a manager in business today, says Freedman, you have not had the same "luxury of 16 years of osmosis" with computers.

To help today's managers make up for the loss and put them on the road to "computer literacy," Freedman in 1979 founded Freedman Associates, now called the Computer Language Company, Inc.

As an independent consultant, he conducts 25 to 30 seminars a year aimed at teaching nontechnical people, from first-line supervisors to company presidents, what he thinks they need to know about computers to be effective in business. His clients have included AT&T, the New York Stock Exchange, Hershey Foods and Connecticut General Life Insurance Company.

With the publishing house of Prentice-Hall, Freedman's firm has published *The Computer Glossary*, a 298-page compendium of definitions now in its third edition, and, for children, *The Computer Coloring Book*. Ashton-Tate, a software and book publishing house, is bringing out his latest book, an explanation of "dBASE II," an Ashton-Tate data base software package that Freedman recommends for novices. In all, he expects his revenues from consulting and publishing to total $200,000 in the fiscal year ending in July.

Freedman's more than 20 years in the computer business include four years of running seminars for the American Management Associations. He is critical of the common educational approach that first teaches people how to program a computer. Instead, he focuses on giving managers perspective and grounding them in what the computer can do for their organizations. He wants to enable managers "to deal more intelligently with systems people without becoming technical people themselves." Managers in an age of technology, he observes, have enough



Helping managers cope with the age of technology is the business of computer literacy consultant Alan Freedman.

to learn without becoming technicians.

Right now, managers have to take what Freedman, 41, likens to "an intensive driving course" in computers. Operating today's computers, he suggests, is somewhat like driving a 10-wheel truck. But in 5 or 10 years, he says, it will be more like driving an auto with an automatic transmission.

What do managers think of Freedman's courses? "They feel that they have a clear foundation—a lot of mystery is taken out of that big black box," says a representative of a securities firm that recently hired Freedman to do a seminar. The firm has asked him to do another in March.

Although he is booked solid this year, Freedman is moving in the direction of cutting back on his seminar schedule.

"I can't reach a fraction of 1 percent of the audience," he explains. So he wants to devote more time to writing and to training trainers who can conduct the seminars. "It's a way to clone myself," he says.

Showing Donors A Little Respect

A young woman in jeans and a sweater sits at a carrel with a computer terminal in front of her. She is talking on the telephone to an individual whose name and address, along with other information, appear on the screen. She introduces herself in friendly tones, thanking the person she is calling for contributions previously made to a political candidate.

"He really appreciated your help," she says, moving on to request a new donation. When the other person demurs, she acknowledges that money is tight this time of year (it is just before Christmas) but gently offers reasons why a contribution is needed now. She quickly wraps up a new pledge—not as large as the donor's highest contribution in the past but a pledge nonetheless.

The process is called telemarketing, and the woman is an employe of Campaign Marketing Group, Inc., a 5-year-old firm in Alexandria, Va., just outside Washington. Other telemarketing firms specialize in selling products or magazine subscriptions, but CMG concentrates on fund raising and membership renewal for clients that include the American Medical Association, the National Association of Home Builders, the American Trial Lawyers Association and the Republican National Committee.

"Our expertise is understanding donors and what motivates them," says CMG president Bruce R. McBrearty, 34, who conceived the idea for the company in 1975 when he was working for the Republican National Committee. He was assigned to develop a telemarketing center there, and he soon learned that experts he hired to help with the project knew a lot about telemarketing but little about fund raising or membership.

It occurred to him that there was a market for someone who understood all three. Keeping the idea in the back of his mind, he went on to work for the National Republican Congressional Committee and then as finance director for Sen. Howard Baker's (R-Tenn.) 1980 presidential campaign.

Once he knew that some organizations would buy the service he had in mind, McBrearty launched CMG—with three salaried employes, eight hourly workers and six telephones. Now the firm has 30 salaried staff members and an average of 200 hourly employes—called "communicators" instead of telephone operators.

CMG's sales were $4.5 million last year; it is aiming for $6 million in 1984. McBrearty is considering expansion, perhaps by getting involved in lobbying; a CMG communicator might call an individual to urge sending a particular message to a member of Congress.

"We are a nation that is very responsive to needs—be they health needs, college needs or political causes," McBrearty observes.

"The go-for-the-throat approach doesn't work for us," he says of CMG. "You can't convince someone to make a contribution with that kind of approach."

CMG reaches people who have already expressed an interest in doing what they are now being asked to do, he explains. For example, they may have made contributions in the past. So CMG relies on telling donors accurately what the needs are now, how their contributions can help and why it is important to make a contribution today instead of six months down the line.

Says McBrearty: "Donors are pretty intelligent." □



Generosity is an area of expertise for Bruce R. McBrearty's telemarketing firm, which concentrates on fund raising.

CONGRESSIONAL ALERT



Issues That Could Affect *Your* Business ... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Budget	Rate and strength of economic recovery will be set by congressional actions on first budget resolution and appropriations for fiscal '85.	Members of the House and Senate: Do your part in deficit reduction effort by cutting federal spending; don't make expensive election promises.
Taxes	If Congress takes more of your money to pay for nonessential programs, you lose selected freedoms as well as your money; recovery may be curtailed as new taxes slow expansion.	Members of the House and Senate: Oppose enacting any major tax increase package this year. Federal deficit problems are due to too much spending, not too little taxation.
Export Administration Act	An export-enhanced economic recovery will reduce foreign trade and budget deficits, increase employment and improve America's worldwide trading reputation.	Members of the Senate: Reduce unrealistic export controls on items readily available to other nations from non-U.S. sources. Preservation of contract sanctity is crucial.
Immigration	Extensive new paper work requirements would be especially burdensome to small business if Congress adopts mandatory reporting provision.	Members of the House: Voluntary paper work provisions currently in House Judiciary Committee version must be in final bill.
Bankruptcy	If bill is passed, individuals able but not willing to pay consumer debt could find themselves in violation of federal law.	Members of the House: Insist bill include future income provision but no special treatment favorable to members of labor unions.
Natural Gas Deregulation	Current gas situation does not allow effective and efficient operation of the free market system of supply and demand, creates conditions unfair to business consumers.	Members of the House and Senate: Let the free market work its will to provide the lowest price and plentiful supplies. Decontrol all prices and supplies by set date.
Product Liability Reform	Providing clear standards and limits on product seller liability is good for business. Cases would be settled quickly, saving litigation costs.	Members of the Senate: Request swift Senate action and passage of bill setting basic standards covering all product liability cases.
Telephone Rates	Business customers may be forced by Congress to pay all subsidy costs for certain users in selected areas.	Members of the Senate: FCC plan provides for cost-based system equitably shared by all users.
National Industrial Policy	Implementation would reduce individual freedom of choice, expand role of central government in allocation of capital and credit.	Members of the House and Senate: Promote the role of the individual. Let the market system expand freely to create jobs.
Hazardous Waste	Business costs could rise if new law requires greatly increased paper work burden; significant environmental improvement would not be achieved.	Members of the Senate: Support effort calling for identical regulating and reporting levels of 100kg a month for small waste generators.

Do Taxpayers Think Taxes Are Too Low?

The new congressional session brings resumption of official debate over policies to deal with massive federal deficits.

Much of the debate centers on whether personal and business taxes should be raised, spending should be cut or a combination of both approaches should be adopted.

But there are larger questions. First, consideration of higher taxes must be in the context of the entire burden on individuals—local, state and federal taxes. All come out of the same pocket.

Then the questions are: Do the American people feel they are not paying enough taxes? Do they feel that government at all levels is not spending enough money?

Documentation sharpens the issue even more. The President's Private Sector Survey on Cost Control, a volunteer group seeking ways to cut federal spending, points out that the average middle-class family has seen a 56 percent increase since 1971 in the amount of its income going out in taxes. As income rose, there was a percentage decrease in outlays for food, clothing and shelter.

Over the same period, governmental outlays went from $372 billion to more than $1.3 trillion.

Elected officials trying to make a case for higher taxes and spending face a difficult fiscal and political challenge. They should think again before they take it on.

Getting Deregulation Back on the Track

"Overregulation causes small and independent business men and women, as well as large businesses, to defer or terminate plans for expansion, and, since they are responsible for most of our new jobs, those new jobs just aren't created."

That comment remains as valid during this period of booming recovery as it was when President Reagan made it nearly three years ago during the recession.

There are no economic conditions under which excessive government controls can safely be tolerated. Such controls impose significant costs on business but do little or nothing to achieve goals of improved health, safety and consumer protection. By diverting resources from the productive economy, overregulation accelerates downturns and retards recovery.

As the article beginning on page 24 points out, progress has been made in curbing overregulation. But the battle is far from over. Business has been concerned about what appeared to be administration unwillingness to engage in election-year confrontations with interest groups defending various regulations.

White House reassurances that such is not the case are most welcome and soon will be put to the test.

A new congressional session has begun, and business stands ready to do all it can to get the deregulation drive back on the track. The goal remains the one that President Reagan set three years ago: "We must come to grips with burdensome and inefficient regulations—eliminate those we can and reform the others."

Here's an Example Of Effective Reform

The Occupational Safety and Health Administration provides an excellent example of how regulatory reform can be achieved without sacrificing basic goals.

Administrator Thorne Auchter brought to that agency the philosophy that its mission is worker safety, not punishment of employers, and that its resources should be allocated accordingly.

New procedures now in effect are designed to improve workplace safety and health through cooperation among employers, employes and the government. In the past, OSHA was often eager to inundate employers with a mass of regulations, many of them petty, and to spring surprise inspections and then prosecute for noncompliance.

Organized labor and other critics argued that Auchter's approach would undercut the cause of worker safety. Experience has shown, however, that the policy of cooperation instead of confrontation has brought about significantly fewer workplace accidents and job-related illnesses. □

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